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World Business Newspaper

WEDNESDAY DECEMBER 13 1995

European plan for Asian aircraft fails after Dasa stand

An attempt to establish a united European front to build a 100-seat jet with China and South Korea has failed because Daimler-Benz Aerospace (Dasa) of Germany insisted that final assembly should take place in Europe as well as in Asia. Officials of a British, Italian and French joint venture believe the Chinese and Koreans will only accept a western partner which agrees that final assembly of the new jet should take place in Asia. Page 12

NBC seals $2.3bn Olympics deal: NBC, the leading US television network, shook competitors for sports-fan viewers with a $2.3bn deal which gives it exclusive rights to US coverage of the Olympic Games until 2008. Page 13

Isuzu of Japan, the world's biggest truckmaker, will today break decades of self-restraint by announcing its entry into the European commercial vehicles market with a joint venture with Lex Service, the UK motor industry group, to distribute UK-assembled light trucks in Britain. Page 12

World Cup draw: Hostilities will move from the battlefield to the soccer field in the 1998 World Cup in France after three member states of the former Yugoslav republic, Bosnia, Croatia and Slovenia, were drawn to play each other in the qualifying rounds. England is drawn with Poland and 1994 runner-up Italy. Details, Page 4; Observer, Page 11

Tomkins, the UK industrial conglomerate, is expected to announce plans for its largest acquisition since its takeover of Ranks Hovis McDougall by offering an estimated $1bn for US automotive and industrial components manufacturer Gates Rubber. Page 13

Gatt given farewell: The General Agreement on Tariffs and Trade was pronounced dead after speeches extolling its contribution to the growth of world trade. Page 12

Lottery regulator's role questioned

The UK opposition Labour party raised doubts about the ability of Peter Davis to continue as regulator of the National Lottery after he admitted taking free flights from GTech, a US member of the winning consortium. His admission followed allegations by Richard Branson (left), head of the Virgin group and of one of the unsuccessful bidders for the lottery licence, that GTech had offered him a bribe to pull out of the bidding. Page 7; Editorial Comment, Page 11

Myllykoski, the Finnish forestry group, said its Madison Paper unit in the US was considering a FM2.2bn ($506m) investment in a new magazine paper machine, adding to fears of overcapacity in the pulp and paper sector. Page 14

Confusion over US budget: The US Congressional Budget Office issued contradictory economic forecasts as exploratory budget negotiations resumed between the Clinton administration and the Republican-controlled Congress. Page 4

Asean to revise N-treaty: The Association of South-East Asian Nations is likely to revise its planned treaty declaring the region a nuclear weapon-free zone after objections from the five nuclear powers, led by the US and China. Page 6

Leeson plans appeal: Nick Leeson, the Singapore-based futures trader blamed for bringing down Barings merchant bank, has given notice he will appeal against the six-and-a-half year jail sentence handed down earlier this month. Page 6

SDP calls for Emu delay: Oskar Lafontaine, the head of Germany's opposition Social Democratic party, urged a delay in the timetable for European economic and monetary union rather than acceptance of mass unemployment and recession. Page 3

Chinese dissident goes on trial: Wei Jingsheng, China's most prominent dissident, goes on trial today in a Beijing court for sedition – a charge that carries the death penalty. Page 6

Bonn to buy more Eurofighters: Germany defence minister Volker Rühe said the country is likely to buy extra Eurofighter aircraft in order to secure its share of the work on Europe's largest joint defence project. Page 2

German trains collide: One man died and 36 people were injured when an Alpine sight-seeing train crashed head-on with another near the resort town of Garmisch-Partenkirchen close to the Austrian border.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5174.28	(-10.12)
NASDAQ Composite	1054.62	(-6.88)
Europe and Far East		
CAC40	1848.94	(-0.65)
DAX	2288.77	(+16.95)
FT-SE 100	3654.9	(+2.8)
Nikkei	19312.77	(+85.99)

US LUNCHTIME RATES

Federal Funds	5 11/16%
3-mth Treas Bills: Yld	5.369%
Long Bond	111 7/32
Yield	6.061%

OTHER RATES

UK: 3-mo Interbank	6 13/32%	(6½%)
UK: 10 yr Gilt	107⅞	(107⅞)
France: 10 yr OAT	106.56	(106.5)
Germany: 10 yr Bund	102.79	(102.86)
Japan: 10 yr JGB	114.18	(114.27)

NORTH SEA OIL (Argus)

Brent 15-day (Jan)	$17.54	(17.72)

GOLD

New York: Comex		
(Feb)	$389.8	(390.0)
London:		
close	$388.5	(389.5)

DOLLAR

New York: lunchtime		
£	1.5385	
DM	1.44615	
FFr	5.06032	
SFr	1.1756	
Y	101.35	
London:		
£	1.5314	(1.5337)
DM	1.4485	(1.4416)
FFr	4.9958	(4.9699)
SFr	1.1753	(1.1682)
Y	101.805	(101.185)

STERLING

DM	2.2183	(2.2149)
Tokyo close:	Y 161.5	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$20	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lw110.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	Sk60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	Kc55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta250
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.80
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl4.20	Syria	S£50.00
Finland	FM15	Kuwait	Fils.525	Portugal (m'land)	Es220	Tunisia	Din1.500
France	FFr11.00	Lebanon	US$1.50			Turkey	L80,000
Germany	DM3.50	Lux	LFr70			UAE	Dh12.00

French workers stage big anti-Juppé protests

By David Buchan and John Ridding in Paris

Hundreds of thousands of striking public sector workers yesterday held the largest of their demonstrations across France, protesting against Mr Alain Juppé, the prime minister, and his controversial welfare reforms.

Nearly a third of the country's civil servants were on strike, while the main rail unions voted to continue their 19-day crippling stoppage. Mr Juppé pledged to stand firm on the welfare reforms at the core of his deficit reduction strategy.

"The government has heard and understood the French people's message," Mr Juppé told the National Assembly in a debate on a censure motion proposed by the opposition Socialists. But he added: "It is in the national interest to end the crisis and to return to work".

The government-appointed rail mediator, Mr Jean Mattéoli, held another meeting with unions last night, in the wake of Mr Juppé's promise to maintain the railwaymen's retirement schemes and to re-work a plan to streamline the SNCF rail network.

But most rail workers now seem to be carried along by the momentum of the strike. Only one section of the FGAAC train drivers' union – the Dijon branch – yesterday voted to return to work.

The dispute has fuelled speculation about the position of Mr Jean Bergougnoux, chairman of the SNCF. He is facing increasing criticism from within the government for failing to persuade unions on the need for restructuring at the loss-making state-owned rail operator.

Yesterday's show of strength was most dramatic in Marseille. Police estimated that 100,000 marchers gathered, some singing the "Internationale" and brandishing placards of "Juppé resign" and "Juppé: two million in the streets".

This was a reference to Mr Juppé's warning last month that if 2m French were to take to the streets his government would resign. However, only the pro-communist CGT claimed a turnout yesterday of more than 2m – police estimated half that number. Far from being mollified by talks on Monday with Mr Juppé, union leaders have vowed to press home their campaign against his reforms.

Mr Louis Viannet, the CGT president, told marchers in Paris that "the only aim now is the withdrawal of the Juppé plan", and he called for another "day of action" on Saturday.

The CGT and the Force Ouvrière called on their members among the 180,000 employees of the social security system to strike on Friday, to demand wage rises and to protest at the FFr3.5bn ($700m) savings the government wants to make in administering the system over two years.

The Juppé plan provides for a constitutional amendment to allow parliament to take over the supervision of the social security system, which until now has been co-managed by employers and union organisations.

Second-rate EU utilities 'will harm economy'

Europe faces shortfall of public funds, says report

By Lionel Barber in Brussels

Second-rate transportation, power and telecommunications infrastructure in the European Union is holding back cross-border investment, stifling job creation and will damage the EU's economy, says a high-level report published yesterday.

The EU's ability to maintain high-quality transportation, power and telecoms on the same level as the US and Japan is in doubt, says the report by the Competitiveness Advisory Group of top industrialists, trade unionists and academics.

The report is one of several studies on employment to be discussed at the EU summit in Madrid on Friday, and contains a strong plea to heads of government and the European Commission to extend the single market to utilities, especially telecommunications.

Demand for efficient, cost-effective infrastructure is growing rapidly, but Europe faces a marked shortfall in public funds available for investment, says the report. It calls for faster privatisation and liberalisation, tempered by greater competition and a new role for the state as regulator. "What matters most is not so much that the ownership – and management – of public utilities moves from the state to the private sector, as that competition is introduced and extended wherever possible," says the report chaired by Mr Carlo Ciampi, former Italian prime minister.

The EU is committed to liberalising voice telephony by January 1 1998 but only the UK, Sweden and Finland have highly liberalised sectors. Efforts to open up the EU-wide energy sector are stalled, largely because of French resistance. The trans-European networks, the multi-billion dollar infrastructure projects, are being delayed by arguments over public funding.

EU heads of government set up the Ciampi group a year ago amid concern that Europe was lagging behind the US and Japan in competitiveness. Its chief recommendations fall into four broad categories, according to Sir David Simon, British Petroleum chairman and a group member.

- The state. The role of the state should be redefined in the public sector to that of "benign regulator" says Sir David. Meanwhile, the EU should adopt a regulatory framework and standards which promote effective integration of national markets across Europe.
- Small businesses. Two-thirds of all European employment is provided by companies with less than 250 employees. The proportion has grown by more than 10 per cent over the last decade as employment in large companies has fallen, the report says.

The Ciampi group calls on the

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Liberated: Bosnian Serb commander General Ratko Mladic, left, and French chief of staff General Jean Philippe Drouin look on as the French airmen Lieutenant Jose Souvignet and Captain Frederic Chiffot, far right, are released in the Bosnian town of Zvornik Picture: Reuters

Paris denies doing deal to free pilots

By Paul Wood in Belgrade, Harriet Martin in Sarajevo and Bruce Clark in London

France denied yesterday that a deal had been done with the Bosnian Serbs to secure the release of two French pilots, whose captivity had cast a shadow over the Bosnian peace agreement due to be signed in Paris tomorrow.

The pilots' release had prompted widespread speculation that some concession had been made to the Serbs, such as a promise that General Ratko Mladic, the Bosnian Serb commander, would be spared from extradition to face charges at the International War Crimes Tribunal in The Hague.

The release of the airmen, who were shot down in Serb-controlled Bosnia during a bombing raid on August 30 and had at one point been feared dead, removed one of the last clouds over the Bosnian peace agreement.

French officials expressed their gratitude to Russia and Serbia for their role in securing the release of the pilots but insisted last night that no deal had been done with the Serbs. A French presidential spokesman said there had been "no exchange, no negotiation".

An apparently jovial Gen Mladic oversaw the handover of the two pilots to General Jean-Philippe Douin, the French chief of staff, at a motel in the town of Zvornik on the Serbian-Bosnian border.

One of the pilots, Lieutenant Jose Souvignet, said they had been treated "quite well" by their Serb captors. "I had some pain in my leg but they had very good doctors," he added. Both he and Captain Frederic Chiffot appeared somewhat dazed.

US and other Nato forces had mounted at least three search-and-rescue missions in September in an effort to bring the pilots home, and at least two US airmen were injured.

In October, Mr Radovan Karadzic, the Bosnian Serb leader, said the airmen had been captured by a faction which he did not control. Senior officers of the Serb-

Continued on Page 12

BAe and Dassault to pool fighter defence technology

By Bernard Gray in London

British Aerospace and Dassault, the French aircraft manufacturer, are to co-operate on technology for a potential European Future Offensive Aircraft, it will be announced today.

The two companies will initially form a joint team of engineers based at Saint-Cloud, on the outskirts of Paris, and run by a BAe employee to study technologies such as radar-avoiding stealth which may go into such an aircraft, according to this morning's edition of Les Echos, the French financial newspaper.

BAe has been collaborating with McDonnell Douglas of the US for several years on similar technologies in the US Joint Advanced Strike Technology programme, which is expected to lead to a replacement for the vertical take-off Harrier.

It has also been working informally with Dassault to develop some technologies.

Beyond 2010 both the UK and France will need about 100 aircraft capable of flying deep into enemy territory to destroy ground targets to replace the Mirage, Tornado and Jaguar aircraft. Advances in air defence mean these aircraft will need high manoeuvrability using directed thrust and radar-avoiding technologies, both hitherto a US specialisation, to survive.

As well as buying vertical take-off fighters for use on aircraft carriers from the US JAST programme, the UK could use versions of the joint UK-US programme to replace its Tornados and Jaguars for ground attack roles. Alternatively, the UK could decide to develop an Anglo-French Future Offensive Aircraft. A decision on which development route to follow is not expected before 2000.

BAe has also suggested to the UK Ministry of Defence that Britain could develop an offensive aircraft alone, if it is able to direct some of the UK's defence technology effort.

Dassault, which has fiercely defended its independence in the past, remains somewhat isolated in European fighter manufacture. However, its chairman, Mr Serge Dassault, has, according to Les Echos, instructed his management team to explore possible alliances.

German Eurofighter shift, Page 2

An attempt to establish a united European front to build a 100-seat jet with China and South Korea has failed because Dasa of Germany insisted that final assembly should take place in Europe as well as in Asia.

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Racism row set to haunt Madrid summit

By Emma Tucker in Brussels

Britain's opposition to a European framework for action against racism and xenophobia means the issue is likely to be raised at this week's summit in Madrid, adding to concern about lack of progress on the justice and home affairs section of the Maastricht treaty.

Mr Michael Howard, the UK home secretary, infuriated his fellow interior ministers last month by blocking agreement on the framework for full co-operation between national police forces in such areas as action against publishing and broadcasting of racist material.

At a meeting in Brussels, he slammed his fist on the table and declared he would not take lectures on race relations from countries with worse records than Britain's.

The British government is widely blamed by its EU partners for the slow development of Union-wide initiatives on crime, immigration and justice – the "third pillar" of the Maastricht treaty.

After Mr Howard's table-thumping, a furious Mr Juan Alberto Belloch, his Spanish counterpart, said problems in this field were not "necessarily linked to the third pillar of Maastricht" but were a "British problem".

Many EU member states share his frustration wanting progress on the third pillar so they can show the public they are tackling those matters that concern them most such as car theft, drug trafficking and illegal immigration.

Negotiations are taking place between Britain and the Spanish presidency of the EU to try to reach agreement on the racism and xenophobia document before the summit, but none was in prospect yesterday.

Mr Howard argues that the text interferes with a careful balance between freedom of speech and the right not to be persecuted for colour, race or belief enshrined in UK race relations legislation.

"There are things which are in the draft joint action which mean we would have to introduce legislation into the UK making some things criminal for the first time," said a British spokesman.

For example, under British law a speech or written document denying the Holocaust took place is not in itself criminal. Nor is it criminal to have a critical opinion about somebody's religious beliefs. Rather, it is the intention behind acts or opinions which is potentially criminal. The joint action, as originally drafted, would ignore the intention and go straight to the act.

Negotiators in Brussels acknowledge the UK has a better race relations record than many other member states.

But even if this issue is resolved before Madrid it will be hard for Britain to escape criticism on another matter. The EU's failure to establish Europol is also up for discussion in Madrid. Europe's planned "FBI", Europol is designed to track down cross-border criminals through sophisticated exchanges of information.

The Council of Ministers has twice failed to meet a deadline for completing the Europol negotiations.

Britain and the Netherlands are arguing over what role the European Court should play in resolving disputes arising out of Europol. The British cannot accept any role for the court, saying all disputes should be settled by national judicial authorities; the Dutch will not ratify the convention unless the court is given full powers.

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Ministers delay attempt to tackle deadlock on liberalisation

EU puts off decision on energy

By Emma Tucker in Brussels

Hopes faded yesterday that the European Union would break a six-year deadlock over liberalising its energy markets before the end of the year. Ministers announced that a vital meeting to tackle the issue had been put off for a week.

The delay follows the failure of President Jacques Chirac and Chancellor Helmut Kohl to agree how far domestic energy markets should be opened up to competition when they met in Baden Baden last week.

Germany is under pressure from its industrial lobby to negotiate a far-reaching liberalisation package in pursuit of lower energy prices. France, already under strain from widespread industrial unrest in the public sector, faces resistance from energy unions totally opposed to liberalisation.

"France and Germany did not want to have this meeting," said an EU diplomat. "There is now a stand-off between the two sides. I don't think the matter will be resolved until next year."

The European Commission, which has been pushing for energy liberalisation, yesterday put a brave face on the announcement that the energy council meeting had been delayed until next Wednesday. "The delay will allow positions to be brought closer together," said Mr Christos Papoutsis, the energy commissioner.

Negotiations to bring about a free market in electricity and gas have been stalled since 1989 with member states split down the middle over how far monopoly rights should be removed from the generation, transmission and distribution of energy.

The main stumbling block has been what is known as "third party access". This would oblige energy companies to allow competitors to use their networks for an "appropriate" charge.

Opposition to third party access has been led by France which has proposed an alternative "liberalisation" package known as the "single buyer model".

Under this arrangement, deals between electricity users and foreign suppliers would have to be reached through the host country's transmission system operator, which would be the sole purchaser of electricity supplies within that country.

In an attempt to forge an agreement, Spain, which currently holds the presidency of the EU, has produced a compromise. However, Germany does not believe it goes far enough, while France is unwilling to accept its basic premise that full liberalisation should be phased in over eight years.

Last week the Bundestag (lower house of the German parliament) instructed Mr Gunther Rexrodt, the country's economics minister, not to accept the Spanish compromise which it considers too weak.

"The issue has become very political," commented an EU official yesterday. "It may be raised at this week's summit in Madrid."

Zhirinovsky goes for Russia's virgin vote

By Chrystia Freeland in Moscow

Many observers claim to have discerned a masochistic streak deep within the Russian soul, but no politician has appealed to it quite like Mr Vladimir Zhirinovsky, the flamboyant ultra-nationalist politician.

In Sunday's parliamentary elections, Mr Zhirinovsky is hoping to triple the 22.3 per cent of the vote his party won in 1993, although polls say he will be lucky to win 10 per cent.

His evening campaign rally in Moscow yesterday began with a 40-minute erotic cabaret show, whose climax was a dancer wearing only a gold sequined G-string and green sequined bra gyrating to the beat of a husky female voice crooning "Spank me, I want a man who will spank me".

Then the bright lights came on and Mr Zhirinovsky, surrounded by bodyguards, strode on to the stage.

"Politics is like love, only your heart can decide," he proclaimed in the booming speaking style he favours. "The difference between my party and all the others is like the difference between a prostitute and a virgin. All of the other parties are like prostitutes who have rolled in the mud a thousand times. No matter what they do they cannot get their virginity back. Only my party is a virgin."

Most of the elderly women who dominated the audience appeared unruffled either by the floorshow or by Mr Zhirinovsky's volatile nationalist rhetoric. They clapped each dance number politely and gave Mr Zhirinovsky a slightly more rousing reception. "It's rather pleasant," said Mrs Tatiana Valeieva, a 70-year-old pensioner wearing her wool hat and coat in the chilly hall.

She had not yet decided which party to back on Sunday because she had missed out on the latest political developments during a recent month-long stay in the hospital.

Russian voters seemed far more excited by the more orthodox political address delivered in another Moscow theatre earlier in the day.

At least 500 Muscovites yesterday crowded the Taganka Theatre, venue for Russia's most avant-garde plays in the 1980s, standing in the aisles to hear Mr Gennady Zyuganov, leader of the Communist party, which is the front-runner in most opinion polls.

In a campaign speech interrupted by frequent bursts of applause, Mr Zyuganov offered a more controlled version of the nationalist nostalgia which made Mr Zhirinovsky the surprise winner of the biggest share of the vote in the 1993 parliamentary elections.

"Everyone knows that the border of Boris Yeltsin's Russia has shrunk back to Smolensk, where it last was four centuries ago in the reign of Ivan the Terrible," Mr Zyuganov said. "How is it that we survived the attack of the fascist machine only to prove vulnerable to this new, internal pathology?"

Mr Zyuganov's twin promises to recreate the Soviet Union within its old borders and to restore the social safety net of the Communist era appeared popular with an audience which went well beyond the Communists' traditional constituencies of the elderly and blue-collar workers.

Mrs Maria Filipovna, a retired engineer who said she voted for the liberal market reform party Russia's Choice in 1993, was one of many highly-educated professionals who had defected to the Communist camp. "I don't trust them now," she said of the democrats. A well-spoken woman dressed with shabby gentility, she said her $45 a month pension barely covered her rent and a subsistence diet.

Mr Ivan Gavrilov, a bearded 23-year-old child psychologist in blue jeans, was one of the young professionals who surprisingly made up about a third of the audience. I think I will vote for the Communists," Mr Gavrilov said. "Zyuganov made a good impression. He's calm and serious. I like that."

A giant red star from Soviet times serves as a convenient site for an election fly-poster in a town near Moscow *Reuter*

MEPs vote under shadow of Islam

Fear of fundamentalism in Turkey is a powerful reason for EU parliament to approve the customs union today, writes **Caroline Southey** in Brussels

Fears of a strong showing by Islamic fundamentalists in Turkey's general election this month will play an important part in today's expected approval by the European Parliament of a customs union between the EU and Turkey.

A month ago, MEPs looked set to throw out the customs union, under which tariffs will be harmonised between the two, because of Turkey's human rights record. But one of the fiercest lobbying campaigns ever mounted in Strasbourg appears to have convinced them that rejecting Turkey would benefit the country's fundamentalists and harm its reformers.

The arm-twisting became so intense last month that Ms Pauline Green, leader of the parliament's Socialist bloc, complained of "excessive" and "counter-productive" pressure.

According to an official from a Brussels-based public relations company, "this has been more heavily lobbied than most issues. But there was no master-minded campaign, partly because the issues were not confined to Turkey".

Mr Uluç Ozülker, Turkey's ambassador to the EU, has stressed that the vote is about more than just the customs union. "In some Islamic countries there are efforts to push for the Islamicisation of the country. Some parties and personalities are trying to divide Turkey from the west and push her towards the Orient," he says.

The lobbying campaign included some of the most sophisticated players in the game, such as the US and Israel, along with Kurdish groups, the Ankara government, EU and Turkish businesses and trade unions, Greece, Cyprus and the United Nations.

EU member states have played a particularly active role, with prime ministers and heads of state, as well as opposition party leaders, working for a Yes vote.

Two years ago, the parliament's vote would have attracted marginal interest. But under the Maastricht treaty, MEPs have the final say on EU agreements with foreign countries.

Turkey's relations with the Union have been fraught since 1963 when Ankara first put out feelers for closer ties with the then European Community. Turkey is surrounded by awkward neighbours, among them Iran, Iraq, Syria, Armenia, Azerbaijan, Georgia and, across the Black Sea, Russia and the Ukraine.

Because of this it has been viewed as a necessary strategic partner in the west's military alliance, but not quite acceptable enough to be offered economic or political partnerships.

Mr Stuart Eizenstat, US ambassador to the EU, who considered agreement on the customs union a top policy priority this year, describes Turkey as a "key moderating influence in a volatile region". The US, he adds, has been both "active and visible in its efforts to promote greater Turkish integration into western Europe".

The US campaign has also emphasised Turkey's economic potential, ranking it among the top 10 "big emerging markets" along with the Chinese "economic area", India, South Korea, Indonesia, Mexico, Brazil, Argentina, Poland and South Africa.

For those in power in Turkey the spectre of a fundamentalist state is matched only by fears about developments in the former Soviet Union. "The biggest threat is Russia," says Mr Ozülker. "After the collapse of the Soviet Union we all thought democracy would come back easily. We are now witnessing other changes."

Israel's motives for joining battle on Turkey's behalf also stem from deep-seated security fears. "To Israel, Turkey is an important partner. They are the only two secular democratic states in the region," says Mr Peter Pex, MEP and vice-president of the committee on external economic relations.

Many view the past month's lobbying of MEPs as part of the parliament's coming of age. In the view of a member state official in Brussels, "even if there was too much lobbying, this is what happens when parliament moves into the real decision-making world".

The parliament "has played its hand well. It put Turkey's human rights record on the agenda and forced member states to sit up and listen," he says. "It also continued to get things out of the Turks. There are an awful lot of people who are not in prison today who would still be there."

Many MEPs have also travelled to Turkey on their own fact-finding missions. More than 120 MEPs out of a total of 626 have visited the country over the past six months.

Nor are MEPs expected to abandon their human rights campaign after the vote today. They are expected to tie the release of tranches of a five-year Ecu3bn (£2.5bn) financial package to an annual review of Turkey's human rights record.

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EU-imposed limits to closer relations are seen as anti-Moslem, writes **John Barham**

Turks feel shunned by 'racist' Europe

Most Europeans see Turkey as a large, poor and unstable Moslem country with a dreadful human rights record. Most Turks see themselves as Europeans but are bitter at what they consider the west's racist, anti-Moslem prejudices.

The debate in Turkey and Europe on creating a customs union has highlighted this gulf in mutual perception.

The most sensitive issue is human rights. The country's large Kurdish minority suffers systematic persecution. About 20,000 people, mainly Kurdish civilians, have died in 11 years of fighting between the guerrillas of the Kurdistan Workers party (PKK) and government forces. Turks habitually say that extreme methods are justified to prevent the break-up of the country.

Turkey's Human Rights Association (IHD) says 186 people "disappeared" and 89 were murdered by unknown assailants between January and October this year. In most cases the police and security forces are the principal suspects. Torture of common criminals and political prisoners is taken for granted.

In response to the European parliament's decision to link approval of the customs union to democratic reforms and greater respect for human rights, the government amended the constitution written by the country's former military rulers, modified the anti-terrorism law that restricts freedom of expression and released about 70 political prisoners.

However, human rights campaigners complain the reforms are superficial and point out that violations continue. Mr Hüsnü Ondül, IHD's secretary general, says "basically nothing has changed in human rights issues. [Violations] have decreased, but the mentality has not changed."

The Turkish government has successfully argued that while important, human rights form only one facet of a complex relationship. Turkey's secular, democratic, market-oriented society is unique in the Moslem world. Customs union will bind it more closely to the west, helping it resist the onslaught of radical Islam and modernise society, it says.

Turkish officials claim in private that Europe's concern for human rights is little more than a pretext for anti-Turkish prejudices. Their sense of grievance is strengthened by the horrors in Bosnia or Chechnya, where the west is criticised for doing little to prevent atrocities committed against Moslems.

Although Mrs Tansu Çiller, the prime minister, is presenting the customs union with the EU as a personal triumph in the general election campaign, her critics argue that it merely confirms Turkey's second class status in Europe.

For instance, free circulation of Turkish workers in the EU, originally guaranteed by the customs union agreement, was rescinded at the insistence of Brussels. Financial assistance to Turkey worth about Ecu1.5bn ($1.16bn) over five years pales when compared with "cohesion" funds lavished on poorer EU members.

Brussels turned down Turkey's membership application in 1987, and the issue has never returned to the agenda. The Commission said Turkey's large size, its immature democratic system, unstable economy and large income gap with the EU made it unsuitable for membership.

Turks particularly resent the fact that countries of eastern Europe, in many cases at a lower stage of economic development and with less experience of democracy, should be offered membership.

It is all the more galling that Cyprus, divided since Turkey's invasion in 1974, will begin discussing EU accession within six months of the end of the EU's intergovernmental conference, which begins in 1996. Greece lifted its veto of customs union earlier this year only after the EU agreed to hold membership talks with the Greek Cypriot government.

Still, customs union should help close the wide gap in mutual understanding between Europe and Turkey. Stronger institutional and business links should further reinforce Turkey's western orientation and accelerate Turkey's economic development. Political observers and business executives often compare Turkey today with Spain on the eve of EU accession in 1986, which triggered a period of rapid growth.

However, human rights campaigners say that if the west's strategists are serious about holding Turkey in the European orbit, they should include it in the EU's next enlargement round.

Turkey would then have to accept a timetable for conforming to the EU's exacting democratic and human rights standards.

"Turkey has a powerful civil society and a certain level of democracy that co-exists with the worst kinds of torture and death squads," says one such campaigner. "If the EU gave Turkey 10 years to prepare for entry it could demand real movement and make them act like Europeans."

EUROPEAN NEWS DIGEST

German shift on Eurofighter

Germany is likely to buy extra Eurofighter aircraft in order to secure its share of the work on Europe's largest joint defence project, Mr Volker Rühe, the country's defence minister, acknowledged yesterday. This would resolve an argument with Britain over dividing up the work and allow manufacturing to begin. A decision on buying the tools and equipment to make the aircraft is now expected in mid-1996.

The decision marks a significant shift by the Bonn government, which cut its requirement from 250 to 140 in 1992. Under rules governing the project, such a reduction should cut Germany's share of work from 33 per cent to 23. However, the Germans have insisted they need at least 30 per cent to remain in the programme.

Bonn is now likely to buy a further 30 Eurofighters after 2010 at a cost of about DM2bn ($1.4bn). Mr Rühe said Germany would need the extra aircraft because a new analysis by its air force believed it would need more Eurofighters to replace the Tornado fighter-bomber which goes out of service around the year 2015.

Michael Lindemann, Bonn and Bernard Gray, London

Brussels approves paper merger

The European Commission yesterday gave Kimberly-Clark and Scott Paper permission to proceed with their merger even though Brussels has not yet given a final verdict on the deal.

Permission was granted only on condition that the two companies manage their European operations separately, pending the final decision as to whether the venture breaches EU competition rules. The merger, which will create the largest supplier of tissues in the world and in Europe, has been under investigation since August and the Commission has to deliver its final verdict by January 22.

Brussels said its decision was motivated partly by the loss of staff and the fall in revenue which Scott's business has experienced since the merger was announced and partly because the two US companies have proposed solutions to the Commission's concerns.

Emma Tucker, Brussels

Unions warn on satellite deal

Unions at the Cannes satellite assembly plant of the state-owned Aérospatiale company yesterday warned the French government that the planned merger of their business with the satellite division of Daimler Benz Aerospace (Dasa) threatened Aérospatiale's "leadership" in European satellites.

Last week's agreement by the French and German governments to co-operate in building the new Helios 2 and Horus generations of military spy satellites has paved the way for the Aérospatiale-Dasa satellite joint venture, which is expected to be signed shortly and based in Munich. Aérospatiale and Dasa already make Airbus, helicopters and missiles together, but their satellite joint venture will be the first to be based in Germany, a fact worryingFrench unions.

The union statement also warned that the assets and order book of the Cannes plant, which has won a large number of telecommunications satellite contracts this year, risked being "undervalued" in the joint venture.

David Buchan, Paris

Single currency's computer debit

Shortages of computer specialists could make it difficult for banks to handle the switch to a single European currency, according to a report by Hoskyns, the UK arm of the Cap Gemini Sogeti computer services group.

The introduction of a single currency could, Hoskyns says, increase banks' demand for outside information technology help by 15 per cent. But if that demand is concentrated in the last year before the new currency comes into use, the supply of skilled computer specialists could be stretched.

Hoskyns warns that the strain on information technology will be compounded by the need to convert computer systems to cope with dates in the next millennium, since many software applications now refer to years by only two digits. A survey by the Banking Federation of the European Union earlier this year estimated the information technology costs of switching to a single European currency could exceed Ecu5bn (£4.15bn).

George Graham, Banking Correspondent

Paris mayor to sell scandal flats

Mr Jean Tibéri, the mayor of Paris, said yesterday he planned to sell off or transfer to housing corporations all of the nearly 1,400 apartments currently under the city's control.

The move follows criticism that the city's policies for allocating and managing property are subject to political manipulation.

Earlier this year, Mr Alain Juppé, the prime minister, came under scrutiny for living in a city-owned apartment and for obtaining a rent reduction in another occupied by his son.

Newspapers have exposed a long list of senior French politicians, civil servants, journalists and others living in Paris-owned housing in spite of earning often substantial sums.

Andrew Jack, Paris

Denmark lowers deficit target

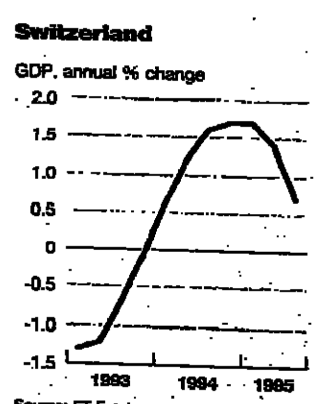
Denmark's government lowered its budget forecast for 1996, predicting a DKr28.8bn (£3.4bn) public sector deficit, compared with a previous forecast of DKr33.5bn. The cut was agreed at recent talks with the opposition Conservative party which has pledged to support the budget when it receives its final parliamentary reading tomorrow. The government also predicted a 1995 deficit of DKr36.4bn, down from DKr37.8bn.

The ministry said the 1995 deficit represented 3.7 per cent of gross domestic product and the 1996 shortfall 2.8 per cent of GDP – within the 3 per cent guideline for participation in European economic and monetary union, for which Denmark has an opt-out.

Reuter, Copenhagen

ECONOMIC WATCH

Currency strength hits Swiss



The strong Swiss franc has effectively snuffed out Switzerland's economic recovery in recent months and raised fears that a deflationary trend is becoming rooted. The federal statistics office reported yesterday that there was no growth in gross domestic product in the third quarter compared with the second quarter on an annualised seasonally adjusted basis. Growth was up 0.7 per cent from the third quarter of 1994. Since the beginning of the year, the franc has gained 12 per cent against the US dollar and more than 4 per cent against the D-Mark and the French franc, mainly because of strong inflows of haven-seeking capital. The Swiss National Bank's successive interest rate reductions this year have only succeeded in preventing the franc from drifting higher. Exporters and the tourism industry have been hardest hit. Exports in the first 10 months grew 5.2 per cent in volume but only 2.8 per cent in value because of price cuts necessary to hold orders. Over the same period, overnight stays in Swiss hotels were down 6.3 per cent. After three years of shallow recession, the Swiss economy grew 1.2 per cent last year. This year, growth is likely to be slightly weaker and, unless the franc softens, next year could be weaker still.

Ian Rodger, Zurich

■ The Dutch producer price index for manufactured goods fell a provisional 0.9 per cent in October from September, giving a 0.9 per cent rise year-on-year, the statistics bureau said.

SPD refuses to pay high price for Emu

By Peter Norman in Bonn

Mr Oskar Lafontaine, the head of Germany's opposition Social Democratic party (SPD), yesterday urged a delay in the timetable for European economic and monetary union rather than acceptance of mass unemployment and recession.

Emu could become a "programme for spreading recession throughout Europe", he said in Bonn.

"If the economy in Europe weakens further, it will be increasingly difficult for all member states to meet the preconditions for Emu."

Before mass unemployment and social injustice destroyed political support for Europe – and Emu became an explosive charge under European unity – "it would be better to correct the timetable of the Maastricht Treaty," he said.

Mr Lafontaine said the SPD supported Emu for economic and political reasons. But the project should not be a prestige object or an end in itself. The Emu timetable should be changed if it was threatening to produce job losses and falling investment. "It is not about dates, it is about people," he declared.

The SPD leader said European governments were excessively concerned with price stability and had lost sight of the goals of growth and employment.

Declaring that Europe needed a joint initiative to combat unemployment, he called on the Bundesbank to lower its key discount and lombard rates at its council meeting in Frankfurt tomorrow.

This would help France and other EU countries as well as boost investment and employment in Germany, he said.

By suggesting a possible delay in the 1999 start date for Emu and linking the issue to Germany's faltering economy, Mr Lafontaine yesterday put Emu back at the centre of the German political debate.

The SPD leader threw down a challenge to the government of Chancellor Helmut Kohl, which has been hoping that Emu would drop out of the hurly-burly of every day politics while insisting that it will enhance Germany's prosperity.

In a Financial Times interview this week, Mr Theo Waigel, the finance minister, warned Mr Lafontaine that he should not "deal with Emu in a careless manner" or make it a "subject for cheap and populist election campaigns" because this could cause currency turbulence that would hit Germany's exports.

Yesterday, Mr Lafontaine said the securing and creation of jobs in Germany must become "the number one political task".

Instead of the national stability pact to curb state deficits which Mr Waigel was seeking, Germany needed a national employment pact, he said.

Unemployment, which currently affects 3.6m people in Germany, cost DM140bn ($100.7bn) a year and Germany could afford that no longer, the SPD leader said.

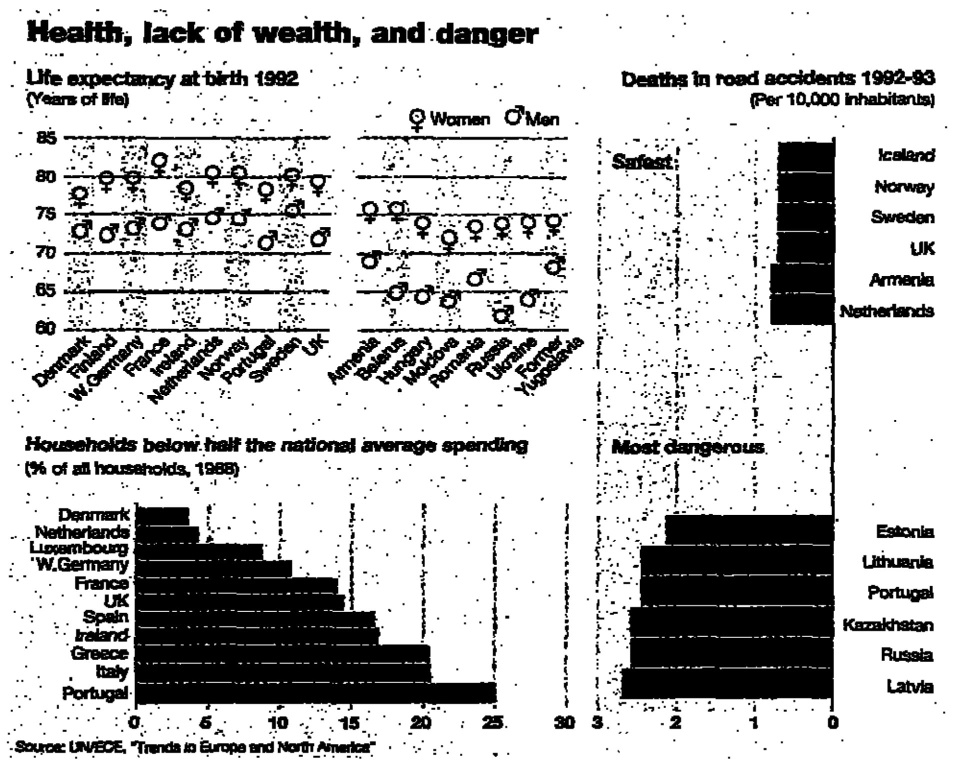
An envelope addressed to Mr Helmut Kohl, the German chancellor, exploded in a postal sorting office outside Berlin, but turned out to contain almost harmless firework squibs, German officials said yesterday, agencies report from Bonn and Vienna.

The Federal Prosecutor's Office said the small letter that detonated on Monday evening and again early yesterday was a bomb, but added that it had caused no injuries or damage.

A post office spokesman later spoke of "mini-blasts" from small pea-sized fireworks that pop on impact and could scarcely have harmed Mr Kohl. The prosecutor's office said the letter did not resemble letter bombs being sent in neighbouring Austria, but could be a copy-cat attack.

East and west remain apart on home comforts, TVs, telephones, cars, cash and life itself

Statistical Berlin Wall divides Europe



By Frances Williams in Geneva

Five years after the lifting of the iron curtain, the economic and social divide between western and eastern Europe remains as sharp as ever, according to the United Nations Economic Commission for Europe.

Its first statistical yearbook* shows eastern Europe lagging on virtually all aspects of economic and social well-being.

Life expectancy – one of the most telling indicators of welfare – is significantly lower in post-communist countries than in western Europe. In no eastern European country can men expect to live beyond 70 on average and in Russia male life expectancy at birth in 1992 was just 62. In western Europe only Turkey has a male life expectancy below 70 years.

Poverty has increased dramatically in countries making the transition to a market economy since the fall of communism in 1989, the ECE notes. In Bulgaria and Romania half of all households are living below the poverty line. This compares with one in five households in the poorest European Union states, Greece, Italy and Portugal.

Average incomes in eastern Europe and the former Soviet Union are well below western levels (Turkey excepted). Four of the five central Asian republics had incomes below $1,000 a year in 1992, while per capita income in the richest central European country, Slovenia, at $6,540, was still below that of Greece, the poorest EU member ($7,290). Income per head in Switzerland, the ECE's richest nation, was $36,080.

Half the homes in Romania have no piped water, bathroom or flush toilet, and for neighbouring Moldova the figure is over two-thirds. Elsewhere in eastern Europe the picture is better but amenities still fall far short of those taken for granted in the west.

Access to a telephone remains the exception in eastern Europe which has one for every five people. Denmark has almost one telephone per person (972 per 1,000 population), while in the rest of the EU the figure is nearer one for every two people. Eastern Europe is nevertheless beginning to catch up with western levels of consumer goods ownership.

Apart from Albania (88 television sets per 1,000 population), television ownership is broadly in line with poorer nations in western Europe at 200-400 per 1,000. Germany has the highest ratio of sets to population in Europe (558 per 1,000); the US has 815.

Slovenian car ownership, at 318 per 1,000 inhabitants in 1993, is higher than in Greece (172), Portugal (309) or Ireland (243). Luxembourg has the highest car density in Europe (522) but comes nowhere near the US (648). Albania, Europe's least motorised country, has 5 cars per 1,000 inhabitants.

Latvia, Russia and Kazakhstan are Europe's most dangerous places to drive, with accident rates of more than 2 per 10,000 population. Iceland, Norway, Sweden and Britain are the safest.

*Trends in Europe and North America, available from UN Sales Office (Sales No. E.95.II.E.13), Palais des Nations, CH-1211 Geneva 10, $35.

Haider caught wrong-footed by snap poll

By Eric Frey in Vienna

The 'bad boy' of Austrian politics had his eye on taking power in 1998

Mr Jörg Haider's rightwing Freedom party will almost certainly increase its share of votes in Austria's parliamentary elections on Sunday. But the "bad boy" of Austrian politics still does not look like a winner.

The collapse of the country's governing coalition this autumn has caught Mr Haider on the wrong foot.

After boosting his share of votes from 17 per cent to 22.5 per cent at the elections in October 1994, Mr Haider worked out a long-term strategy to take power in 1998. He was counting on the declining popularity of the two governing parties, the Social Democrats and the conservative People's party and hoped to benefit from the painful cuts in government spending demanded by the convergence criteria of European monetary union.

But the snap elections to be held on Sunday have upset Mr Haider's plans. He is still scoring points by bashing foreigners and the privileges of the élites, but these themes have been overshadowed by the bitter debate on how to reduce the budget deficit.

While his rallies continue to attract thousands of blue-collar workers and disgruntled pensioners fearful of foreigners, he has gained fewer converts among white-collar employees. Moreover, Mr Haider has not been able to assemble a credible group of experts, and several of his closest associates are tainted by scandal.

Mr Haider has still proven to be an effective debater in a series of television debates, but he was upstaged by Mr Wolfgang Schüssel, leader of the People's party, and was put on the defensive by Chancellor Franz Vranitzky. As he did in last year's debate, Mr Haider held up little posters to the camera to illustrate alleged cases of abuse and corruption, but the gimmick has lost its novelty.

However, when Mr Haider tones down his rhetoric to seem more credible, he looks like any other politician. And his campaign posters with the slogan "He did not lie to you" have lost some of their effect since some of his anecdotal case studies have been shown to be false.

Mr Haider's biggest problem is that he has outgrown his role of a pike in the fish-pond. A month ago, the Freedom party was near 30 per cent in the polls and had a chance to become the strongest party. But most of his supporters apparently do not want him as chancellor and the other parties have shown little interest in forming a coalition with his party.

Mr Schüssel has not explicitly ruled out a partnership, but has been at pains to emphasise his differences with Mr Haider. In turn Mr Haider has said that he would prefer to remain in opposition. This has allowed him to continue attacking the government parties, but has damaged his credibility as a serious player in Austrian politics. In the latest polls, the Freedom party is scoring a maximum of 26 per cent support. This is still the highest share of any rightwing party in Europe, but not enough to gain real power.

Haider speaking at a news conference in Vienna yesterday AP

Serbia seeks economic life after dirty business of war

By Laura Silber in Belgrade and Anthony Robinson in London

When the Serbian business community held its businessman of the year award ceremony last month Mr Zeljko Raznatovic, an ice-cream maker turned entrepreneur, better known as the warlord Arkan, was prominent in the crowd.

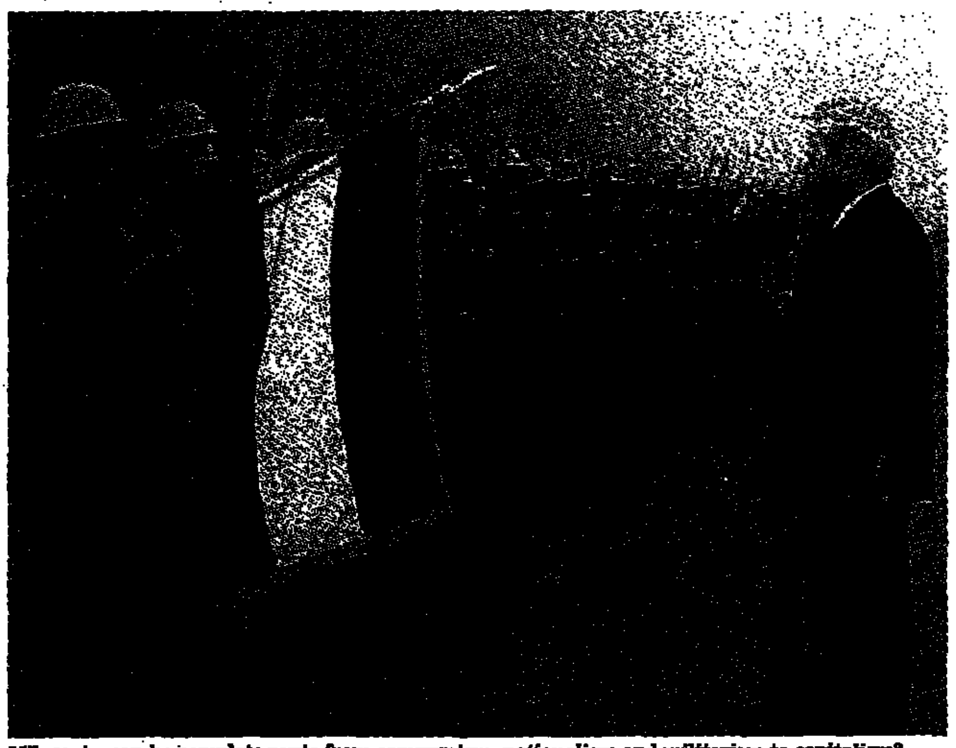
The presence at such a gathering of a man better known as a war criminal and war profiteer underlined the distance Serbia has to travel before it attains legitimacy in the eyes of the international financial community. But the assembled diplomats, politicians and business people were well aware that suspension of United Nations-imposed sanctions, as part of the Dayton peace settlement, was only the starting point for the difficult task of rebuilding the shattered Serbian economy.

Serbia and neighbouring Montenegro escaped the military destruction of neighbouring Bosnia and Croatia, but their already shaky economy was distorted and diminished by a 42-month, UN-imposed oil and trade embargo and the huge cost of maintaining the Serbian army and supporting the Bosnian and Croatian Serb armies in the field.

It was President Slobodan Milosevic's desire to break out of economic isolation that made him a key player in finalising the Dayton agreement and he is looking for international aid and investment once sanctions are removed.

Most of Serbia is rural and its economic role was mainly as a supplier of food and raw materials, and of minerals from uneconomic mines. Serbia's most promising economic sectors – agriculture, food-processing, copper mining, textiles, tourism, and machinery – all need fresh capital. Many of the factories which still operate are military plants.

With more than 9m inhabitants, Serbia was always the largest single market for the former Yugoslav republics although it earned relatively little foreign exchange compared with export-orientated Slovenia and tourist-dollar-rich Croatia. The Serbian government hopes for the restoration of economic ties with the other republics. But re-establishing economic ties with Bosnia and Croatia will be fraught.


Milosevic: can he complete route from communism, nationalism and militarism to capitalism?

Re-starting the economy itself will be a difficult task. Inflation is running at an annualised 120 per cent, while gross domestic product, equivalent to DM6bn ($4.3bn), is 55 per cent below 1989 levels. Living standards for all but a small group of very rich war-profiteers and black market traders with links to the regime have plummeted. Workers have been laid off and many of the professional and middle classes have fled – alienated by war, economic hopelessness and xenophobia.

Belgrade's return to international organisations is far from certain. At the very least, it will hinge on Serbian co-operation with the War Crimes Tribunal in The Hague

Belgrade's first move in the long fight back to economic health was the decision last month to devalue the dinar by 69.7 per cent, bringing the currency down to its black market trading level. This was followed by limited steps to liberalise foreign trade.

Both moves were part of a wider package put forward by Mr Dragoslav Avramovic, the market-oriented governor of the central bank. It includes liberalisation of foreign investment, restructuring the banking system and privatisation, although little headway has been made on any of these.

Mr Avramovic believes his programme will "take Yugoslavia a long way towards getting non-discriminatory treatment by international financial institutions". But return to membership in international organisations is far from certain. At the very least, it will hinge on Belgrade's co-operation with the International War Crimes Tribunal in The Hague. "Until they [Serbia and Montenegro] are fully accepted into the community of nations," cautions a western diplomat, "it is hard to imagine the IMF or the World Bank extending any credits."

But debt relief of some kind is essential. Belgrade owes around $8bn to foreign creditors, its 40 per cent share of the former federal Yugoslav foreign debt. It also has to service a $4bn domestic debt burden. The unfreezing of the foreign assets of the former Yugoslavia offers one potential source of hard currency for Serbia. But it may be a while before Serbia receives its share.

To restart the economy and join the western economic community, Serbia will have to break the state's hold over the economy and close white elephant factories. But it is unclear who will be able to counter the entrenched interests of the political and economic elite.

Much depends on Mr Milosevic. Diplomats believe that the man seen as the chief instigator of the war in Bosnia is about to re-invent himself as a partisan of economic reforms. "I wouldn't be surprised if Milosevic turns around and supports [market reforms] – if he believes it will sustain him in power," says one.

US budget forecasts disappoint in Congress

By Jurek Martin, US Editor, in Washington

Exploratory budget negotiations resumed yesterday, in the wake of complex and in part contradictory new economic forecasts issued by the US Congressional Budget Office.

The latest CBO projections at first sight appear to narrow the gap between the Clinton administration and the Republican-controlled Congress over how much needs to be cut from the growth in future government spending in order to produce a balanced budget by 2002.

The CBO found that, if the policies laid down by the Republicans' Balanced Budget Act were implemented, the cumulative federal deficit would be $135bn lower that it had previously estimated. The two sides were more than $400bn apart in their respective positions, and President Bill Clinton has already vetoed the budget act in its first form.

However, the CBO warned that most of the projected savings would come over the next five years – in the form of higher corporate profits leading to increased tax revenues, slower growth in the labour force and smaller benefits payments resulting from lower inflation.

Little benefit would accrue in the last two years of the seven-year process and only a tiny surplus of about $3bn was forecast for 2002. The deficit is now at about $160bn a year.

Even some Republican leaders were obliged to concede that the CBO projections, which they insist should be the principal yardstick, were disappointing. Congressman John Kasich, chairman of the House of Representatives budget committee, said: "Nobody can figure what it's all about". Mr Pete Domenici, his Senate counterpart, said balancing the books remained "a difficult chore".

Senator James Exon of Nebraska, a prominent Democratic negotiator, observed that visions of "sugar-plums" from the CBO "had been sort of dashed". Mr Robert Rubin, treasury secretary, said cautiously that the administration would have to study with care the latest forecasts.

Congressman Tom Delay, the Republican whip, thought that some of the $135bn could be spent on Medicare and Medicaid, the two federal health programmes which Mr Clinton is fighting to keep as far as may be.

The CBO's new estimates lower the projected financial impact on both programmes, finding that Medicare growth would have to be reduced by $226bn, rather than $270bn, and Medicaid by $133bn, not $163bn.

But both numbers are far above the restraints the administration is proposing – $124bn and $54bn respectively. Furthermore, Mr Clinton is holding to the principle of retaining a federal guarantee of assistance to the poor and the disabled.

The CBO, whose mandate was mainly to assess the Republican plan, expressed no opinion on the desirable size or composition of any tax reduction. At present, the Republicans seek an overall seven-year cut of $245bn, the administration a net $70bn, plus $28bn in the closing of certain corporate tax loopholes.

Congressman Newt Gingrich, House Speaker, continues to insist there will be no new resolution to fund the government temporarily unless some agreement in principle over the budget is reached by Friday midnight. Failing that, some government services would be withdrawn, starting next week.

Argentina's markets love this economic crisis

There is widespread support for the president's request for extraordinary powers, writes **David Pilling**

That Argentina should be about to declare a public emergency may not strike the casual observer as good news. Yet the fact that President Carlos Menem has asked Congress to grant him extraordinary powers to confront what his administration openly terms "economic crisis" has greatly pleased Argentina's stock and bond markets.

In the past month, the Merval index of blue-chip stocks has risen 15 per cent while bonds in pesos and dollars have rallied strongly as traders have reacted positively to Mr Menem's request for extraordinary powers to cut the state bureaucracy and modify taxes. Such authority – only permissible during a state of public emergency – would allow the president to take tax and spending decisions without consulting Congress.

Given such "superpowers" – the term adopted by the local press, but resented by President Menem – the administration argues it would be able to launch an efficiency drive, scrapping overlapping state entities and weeding out pockets of corruption. More leeway over tax levels would allow the president to respond quickly to the sort of revenue shortfalls that plagued the treasury for most of 1995, it says.

President Menem "seems to have regained the political initiative after several docile months", says Raúl Buonuome of ING Barings, who reflects the relief of many analysts that months of political infighting within the governing Peronist party appear to have ended. Investors believe that confidence in the economy has been battered by public battles between the president and his economy minister. Mr Domingo Cavallo, whose job at one point seemed in danger.

Power close to the president: Eduardo Bauzá denies the government is seeking a blank cheque Reuter

Many commentators read the presidential request for special powers – denied by Congress to Mr Cavallo in 1994 – as evidence that Mr Menem is sticking his neck out for his economy minister. Some suggest the powers being requested will actually be wielded by Mr Cavallo and that Mr Menem is something of a front-man.

"The impression has been created that Menem, [Eduardo] Bauzá [the cabinet chief] and Cavallo are back together ... that the struggle within the cabinet is over," says Mr Pedro Lacoste, head of the Alpha economic consultancy.

The official admission last week that Argentina's gross domestic product would drop by an estimated 2.5 per cent in 1995 – worse than all but the bleakest private-sector forecasts – confirmed fears that economic recovery had been dragged down by political uncertainties. The sense of economic crisis has been heightened by record unemployment of 18.6 per cent and by almost daily disturbances in the provinces, where bankrupt local administrations are often months behind in paying wages.

Superpowers would enable Mr Menem to stamp his authority on events and take the necessary steps to sort out the budget next year, enthusiasts argue. Swift action may prove necessary should growth fail to match the optimistic official forecast of 5 per cent.

The ability to respond quickly would also be a safeguard against a future external shock, such as a second crisis in Mexico or the derailment of the Brazilian recovery on which Argentina's export drive so depends.

"The executive needs to execute authority, so let him govern," says Mr Orlando Ferreres, an economic consultant and a firm believer that Mr Menem should use superpowers to take unpopular decisions on spending freezes, wage cuts and public sector layoffs. Congressmen, who agree such measures are necessary but who do not wish to take responsibility, will be happy to shuffle off their authority to the president, he argues.

But not all congressmen are happy at the idea of ceding power and the president is far from certain of getting what he wants. Mr Rodolfo Terragno, head of the opposition Radical party, has taken to calling the president "General Menem", saying that his request for superpowers is reminiscent of the military governments that litter Argentine history.

Mr Menem's penchant for decrees and his failure to implement constitutional requirements, such as the holding of mayoral elections in the federal capital of Buenos Aires, demonstrate his authoritarian streak, says Mr Terragno.

Last week, the Peronist-controlled Senate approved Mr Menem's controversial nomination for the supreme court, despite suggestions that the main qualifications of the candidate, Mr Adolfo Vázquez, were his personal friendship with the president and his devotion to neo-liberal reform. The rapid ratification was seen as a setback by those who believe the independence of institutions, such as the courts and congress itself, should be strengthened, not diluted.

The powerful Mr Bauzá, who is negotiating the superpowers with Congress, denies there is any hint of authoritarianism in the president's request. The constitution clearly allows for the granting of "certain faculties for a specific purpose", he says, dismissing suggestions of some that they represent a "blank cheque".

Mr Bauzá denies too that there is any contradiction between, on the one hand, proposing an upbeat budget based on 5 per cent growth and, on the other, invoking economic crisis in order to request emergency authority.

"We say we are progressing well. But this does not mean that everything is resolved – far from it."

Quite what Mr Menem intends to do with his superpowers, should they be granted, is something of a mystery. "Some say he will lower taxes, some say he will raise them," says Mr Lacoste. "I can't find anyone who can tell me what he will do."

Mr Bauzá is sparse on detail, sticking to the well-worn formula of referring vaguely to the "second stage of state reform". He believes superpowers should be safely in presidential hands by the end of the month. Only after then will the markets discover if their optimism is well-founded.

AMERICAN NEWS DIGEST

US producer prices rise

US producer prices rose by an unexpected 0.5 per cent last month, but this was not seen as signalling a sustained increase in inflationary pressure. In their half-yearly economic forecast, purchasing managers predicted sluggish growth, weak capital investment and near static prices next year.

Economists said the producer price figures were distorted by an erratic 1.3 per cent increase in car prices last month, partly caused by the timing of the release of 1996 models. Elsewhere, price movements were largely off-set: food prices rose 1.2 per cent but energy costs fell 0.5 per cent. The overall index rose 2 per cent on an annual basis. Excluding food and energy, the core producer price index rose by 0.4 per cent last month and 2.7 per cent in the year to November.

The purchasing managers' semi-annual forecast was the least optimistic on growth since December 1992: nearly two thirds of those surveyed expected business for the first half of 1996 to be "the same or worse" than in the second half of 1995. *Michael Prowse, Washington*

Mexican inflation-cutting plan

The Bank of Mexico yesterday unveiled a monetary programme which aims to lower inflation from 52 per cent in 1995 to 20.5 per cent next year.

The central bank said it would allow the monetary base (notes and coins in circulation) to expand by 23.8 per cent, or about 18bn pesos ($2.3bn), as the demand for money was expected to grow with the modest economic recovery forecast for next year. Finance officials say they expect the economy to grow by at least 3 per cent in 1996, after this year's deep recession. Private sector economists are more pessimistic.

Economists say the key to Mexico's economic revival rests on how quickly the banking sector can rebound from this year's financial crisis. The banks are negotiating the sale of billions of dollars of problem loans to the government, in exchange for a commitment to recapitalise the banks.

In its policy document, the Bank of Mexico does not calculate the cost of bailing out the banking system. However, it says the central bank will sterilise any monetary impact of commercial bank rescues. *Leslie Crawford, Mexico City*

Boeing strike set to end

Union and company negotiators expect engineering workers at Boeing, the US aircraft-maker, to accept a four-year pay deal and end a nine-week strike, when they vote today on a compromise offer hammered out in a week of talks.

The proposal, which includes lump sum payments of 10 per cent of annual pay in the first year and 4.5 per cent in the second, appears to mark a partial victory for the machinists' union, which had resisted efforts to make employees contribute more to health insurance premiums. The revised plan would increase the average Boeing machinist's hourly pay from $20.37 to $23. *Christopher Parkes, Los Angeles*

Brazilian sell-off delayed

The competition to advise the Brazilian government on the privatisation of Companhia Vale do Rio Doce (CVRD), the metals mining giant, is unlikely to be resolved until next month, after a delay in selection.

There is a dispute over the bid by a consortium including Morgan Stanley and SBC Warburg. The bid was disqualified because its fee estimate was ruled too far below the average. The consortium is appealing against the decision, claiming its estimate was only $104,000 below the average of the five lowest bids. *Angus Foster, São Paulo*

Bank regulators in capital rules row

By George Graham, Banking Correspondent

Bank regulators yesterday announced new rules for measuring the amount of capital banks need to cushion themselves against market risk, but ran into immediate criticism for being too conservative.

The Basle bank regulators' committee said it had agreed a set of proposals for including market risk in the capital adequacy requirements already applied to banks' lending proposals.

The proposals would allow banks, for the first time, to use their own internal models to assess their market risk, rather than apply a standardised formula laid down by regulators.

But regulators want to multiply the value banks estimate to be at risk by three to determine the amount of capital they need.

Bankers are happier the Basle committee has retreated from its earlier insistence that risks in separate categories such as interest rates, exchange rates and equity prices should be added together. The new proposals allow banks to determine that risks in one category can correlate with risks in another, and may therefore be offset.

"Allowing for risk correlation is a big advance, but the other parameters have remained conservative," said Ms Gay Evans, chairman of the International Swaps and Derivatives Association, who hoped regulators would continue to work with the industry on the rules.

Banks and securities firms have been pleased the Basle committee has accepted the general principle of internal risk models, but had pressed the regulators to be more flexible over the multiplication factor, or at least not to fix it until more work can be done to test how well the models work.

"The three-times multiplier will disappoint the industry," one US banker said.

Most institutions are likely to find it more attractive to measure their capital needs by the traditional standardised formula.

"The problem most people have with it is that the number is just plucked from the air," one London investment banker said.

If an internal model is accurately assessing a bank's risk, many bankers argue, it should not be necessary to multiply it by anything at all.

But the Basle committee said it considered it prudent to maintain the multiplication factor because of weaknesses in the models so far developed. The regulators warned that models based on the past could not always provide a good approximation of the future; calculations were usually based on portfolios at the end of the day, and did not take account of risks run up during the day's trading: models could not adequately predict the risks created by exceptional market circumstances.

Allowing banks to use their own in-house models for assessing risk is regarded as a significant step forward in bank supervision.

But the Basle committee said in a statement issued yesterday it was "inclined to be conservative in its choice of parameters, pending further experience in this area".

Internal models were "a valuable starting point for measuring the riskiness of a bank's trading portfolio," the committee said, but they still needed to be translated into a capital cushion that would guard against losses building up over an extended period of poor market conditions.

Detailed requirements are to be issued next month, but the committee said it would insist on testing the models used by banks.

Radicals frustrated by Egyptian poll

Many feel disputed election confirmed limits of democracy, writes **James Whittington**

At the Great Pyramids in Giza it is business as usual. Tourists flock to the majestic tombs, reflecting a renewed confidence that Egypt is again a safe place for foreign visitors.

Having been rocked by a terror campaign which began at the end of 1992, the revival of Egypt's tourism sector this year is the most visible sign of the government's hard-won battle for stability.

Only two years ago diplomatic missions and foreign companies in Cairo were drawing up contingency plans for the collapse of President Hosni Mubarak's government under a wave of Islamic insurgency. When the collapse failed to materialise, commentators pointed to the underlying tolerance of the Egyptian people.

Historically, despite the frustrations and poverty of most of those living in the Arab world's most populous country, Egyptians have nearly always shown deference towards strong and paternalistic government.

As the dust settles after the country's first parliamentary elections in five years, however, there are rumblings once again from some quarters that the relative calm may be shattered.

The elections, held on November 29 and December 6, were characterised by violence and vote-rigging. They were unusual in the number of candidates competing – nearly 4,000 for 444 parliamentary seats – and the participation of a dozen diffuse opposition parties, most of which regretted boycotting the last poll in 1990.

Young Egyptians stand outside a polling station last month Reuter

The official turnout of 50 per cent of the 21m registered voters was also uncommonly high for a traditionally apathetic electorate.

The outcome, however, has been widely dismissed as a farce. After two rounds of voting, which left about 40 people dead and many more injured, the ruling National Democratic party effectively holds 416 of the elected seats. Some 317 were won directly by NDP candidates and 99 so-called independents signed up to the party over the weekend.

The frustrated opposition parties won a collective 13 seats, with the remainder held by other independents. Mr Mubarak, who heads the NDP, will choose a further 10 people for the new assembly which will consider government legislation for the next five years and, what is more important, will nominate the next president in 1999.

For the opposition, the result is the starkest sign yet that, having flirted briefly with the idea of political pluralism in the first half of his 14-year presidency, Mr Mubarak is now determined to marginalise all real and imagined dissenting voices.

Like the NDP, the official opposition parties said or did little to inspire the electorate. Most are small cliques held together by one or two personalities with noisy newspapers but little widespread support. Nevertheless, there is a feeling among many Egyptians that this squeeze on legitimate political debate can only lead to more violence.

"There is a feeling of complete hopelessness that democracy won't change anything, and this is very, very dangerous," says Mr Mamoun Hodebi, spokesman for the Moslem Brotherhood, the country's biggest unofficial opposition group, which has suffered more than any other in these elections.

The Brotherhood dates back to 1928 and has provided a fertile breeding ground for disillusioned Islamists. Although officially banned, its mix of politics, religion and charity had been tolerated by Mr Mubarak until the beginning of this year.

A sustained attack by the government, however, in effect neutralised the movement for the elections. Following hundreds of arrests which began in January, an elaborate conspiracy trial by a military court jailed 54 of the Brotherhood's most promising candidates a week before the poll.

The government claims it has proof the Brotherhood was secretly helping the Islamist militants in their terror campaign, which continues in some areas in the Nile valley. But others say the group's attempts to appeal to a wider constituency by moderating its views on an Islamic theocracy had scared the government.

There are fears both within and outside the Brotherhood that frustration with the movement's espoused moderate views and the lack of progress in changing the government will help push some of its younger and more radical members to the gun. A number of attacks on Egyptian interests abroad – the most serious being an assassination attempt on Mr Mubarak in Ethiopia in June and a car bombing of the Egyptian embassy in Pakistan last month – has already sent a strong message that militant groups remain serious about insurrection.

Most diplomats and foreign companies in Cairo agree that risk of instability has increased as a result of the elections. If unrest returns, the tourists, as before, will be the first to disappear.

UK is cheapest place to live in EU

By Richard Donkin, Labour Staff

The UK is the cheapest place to live in the European Community according to a survey published today by Employment Conditions Abroad, a research organisation specialising in expatriate salaries.

London's bargain basement status is partly due to the depreciation of sterling after leaving the Exchange Rate Mechanism in September 1992 and its low inflation.

In a worldwide league table of living costs hyper-inflation has pushed Zaire close to the top while Nigeria's position has fallen markedly due mainly to the introduction of a new market exchange rate resulting in the naira retaining only 25 per cent of its previous value.

Venezuela has risen in the table due to rising inflation combined with a relatively stable exchange rate.

China has also been moving rapidly up the table. Recent large increases in prices have been compensated by currency movements.

Yet more cost of living details were also published today by the Economist Intelligence Unit. It concurs that Tokyo remains the most expensive place to live but the weaker yen has meant that Zurich, the most expensive city in Europe, is closing the gap.

Hong Kong and Seoul have both become relatively more expensive in the past six months while Taipei and Singapore have become less so in comparison. Living in Spanish cities has become more costly because of a stronger peseta.

Moscow is the most expensive eastern European city, on a par with Luxembourg and almost as expensive as Singapore. New York is the costliest city in the US, a little cheaper than London, and Atlanta is the least expensive.

Employment Conditions Abroad, 15 Britten Street, London. SW3 3TY, tel 0171 351 7151.

EIU Worldwide Cost of Living Survey, Economist Intelligence Unit, 15 Regent Street, London SW1Y 4LR, tel 0171 830 1000.

Details of the draw for the 1998 football World Cup in France

EUROPE (14 qualifiers plus France as hosts)

Group 1: Denmark, Greece, Croatia, Slovenia, Bosnia
Group 2: Italy, England, Poland, Georgia, Moldova
Group 3: Norway, Switzerland, Finland, Hungary, Azerbaijan
Group 4: Sweden, Scotland, Austria, Latvia, Belarus, Estonia
Group 5: Russia, Bulgaria, Israel, Cyprus, Luxembourg
Group 6: Spain, Czech Republic, Slovakia, Yugoslavia, Malta, Faroe Islands
Group 7: Netherlands, Belgium, Turkey, Wales, San Marino
Group 8: Romania, Republic of Ireland, Lithuania, Iceland, Macedonia, Liechtenstein
Group 9: Germany, Portugal, Northern Ireland, Ukraine, Albania, Armenia
The nine group winners and the best runner-up qualify for the finals in France. The other eight runners-up will be drawn into pairs for play-offs with the play-off winners qualifying for the finals in France.

AFRICA (5 qualifiers)

Cameroon, Nigeria, Egypt and Morocco exempt from first round.
First round: Sudan v Zambia, Namibia v Mozambique, Tanzania v Ghana, Swaziland v Gabon, Uganda v Angola, Mauritius v Zaire, Malawi v South Africa, Madagascar v Zimbabwe, Guinea-Bissau v Guinea, Rwanda v Tunisia, Congo v Ivory Coast, Kenya v Algeria, Burundi v Sierra Leone, Mauritania v Burkina Faso, Togo v Senegal, Gambia v Liberia
Second round: First round winners plus Cameroon, Nigeria, Egypt and Morocco will be drawn later into five groups of four with group winners qualifying for finals in France.

SOUTH AMERICA (4 qualifiers plus holders Brazil)

Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela play in single group (league system).

NORTH, CENT. AMERICA & CARIBBEAN (3 qual.)

Caribbean zone:
First round: A Aruba v Dominican Republic B Bahamas v St Kitts and Nevis C Guyana v Grenada D Dominica v Antigua
Second round: 1 Bermuda v Trinidad and Tobago 2 Puerto Rico v St Vincent 3 Cayman Islands v Cuba 4 Winner B v St Lucia 5 Winner C v Haiti 6 Surinam v Jamaica 7 Winner D v Barbados 8 Winner A v Netherlands Antilles
Third round: Teams drawn into pairs with winners (A, B, C, D) going into semifinal phase
Winners qualify for semifinal phase.

Central American zone: E Nicaragua v Guatemala F Belize v Panama
Winners qualify for semifinal phase.
Semifinal phase: Group 1 - United States, Costa Rica, Winner E, Winner D. Group 2 - Canada, El Salvador, Winner A, Winner F Group 3 - Mexico, Honduras, Winner B, Winner C

Top two in each group go into final phase (league system) Top three in final phase qualify for finals in France.

ASIA (4 qualifiers incl. Oceania playoff)

Group 1 - Saudi Arabia, Malaysia, Bangladesh, Taiwan
Group 2 - Iran, Syria, Maldive Islands, Kyrgyzstan
Group 3 - United Arab Emirates, Bahrain, Jordan
Group 4 - Japan, Oman, Nepal, Macao
Group 5 - Uzbekistan, Indonesia, Yemen, Cambodia
Group 6 - South Korea, Thailand, Hong Kong
Group 7 - Kuwait, Lebanon, Singapore
Group 8 - China, Turkmenistan, Vietnam, Tajikistan
Group 9 - Iraq, Kazakhstan, Pakistan
Group 10 - Qatar, India, Sri Lanka, Philippines

Second round: Group winners to be drawn into two groups of five. Top two in each second round group qualify for semifinals.

Semifinals: Two semifinal winners qualify for 1998 finals in France. Two losers take part in playoff. Winner of playoff qualifies for finals in France, loser goes into playoff with Oceania winner.

OCEANIA

Australia, New Zealand, Fiji and Tahiti exempt from first round

First round, single round-robin
Melanesian Group
Papua New Guinea, Solomon Islands, Vanuatu
Polynesian Group
Cook Islands, Tonga, Western Samoa
Melanesian winner qualifies, Polynesian winner plays Melanesian second place.
Second round, two groups of 3 teams.

Double round-robin, winners advance. Group 1 - Australia, Tahiti, winner of first in Polynesian Group or second in Melanesian Group. Group 2 – Fiji, New Zealand, first in Melanesian Group Third Round - Group A winner plays Group B winner-home-and-away
Winner plays Asia fourth place for qualifying spot.

The draw was held yesterday in Paris

Chip venture coup for Thais

By Ted Bardacke in Bangkok

Texas Instruments, the US electronics multinational, yesterday said it would set up a $1.2bn advanced semiconductor plant in Thailand.

The investment represents a coup for Thailand in its attempt to upgrade its economy from one based on low-wage assembly to producing and developing advanced technology.

The plant, a joint-venture with the Alphatech Group, a Thai technology and electronics manufacturer, is Thailand's second production facility for wafers, an essential building block for computer chips.

Texas Instruments and Alphatech plan to produce 16-megabit and 64-megabit dynamic random access memories, which are used to store data in a variety of electronic equipment, such as computers, facsimile machines, printers and copiers.

Production at the plant 45km southeast of Bangkok will begin in 1997 and when it is operating at full capacity it should produce 20,000 wafers per month.

Initially, about 90 per cent of production will be exported although executives say eventually, as Thailand builds more integrated circuit manufacturing and testing facilities, a larger share of production would be sold domestically.

Texas Instruments estimates that the worldwide market for semiconductors will rise to $300bn by 2000, from $140bn this year. Texas Instruments will buy all the plant's production and resell it on the world market. Currently the company estimates that 28 per cent of this market is located in Asia excluding Japan and that share is growing rapidly.

Alphatech chairman Mr Charn Uswachoke will personally hold 74 per cent of the joint venture. Mr Charn controls Thailand's only other wafer production facility which also produces integrated circuits and telecommunications equipment.

Texas Instruments operates semi-conductor facilities in Malaysia, Singapore, Taiwan, South Korea, India and the Philippines. Thailand was selected for the project in favour of Singapore and Malaysia, largely because of the availability of skilled labour and good infrastructure. Texas' endorsement of Thailand's labour and infrastructure is in contrast to other foreign companies which had previously cited these as disincentives to investing there.

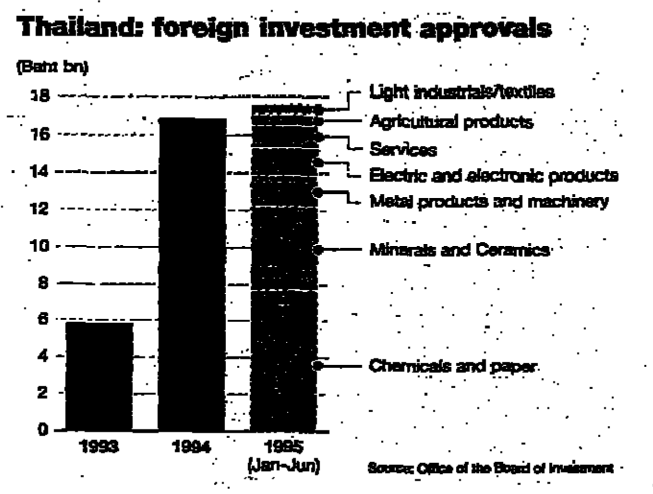
"There is no shortage of labour here like there is in Kuala Lumpur or Penang," said Mr Bob Mollerstuen, president of Alphatech.

Mr Robert England, senior vice president of Texas Instrument's Semiconductor Group said, "By being an early entrant into high-tech production we can recruit the best people without the cut-throat competition that exists elsewhere."

The joint venture plans to spend $5.5m on training the approximately 1,100 workers who will be employed at the plant.

Thailand's large domestic market and rapid economic growth – gross domestic product has been rising by over 8 per cent a year since 1990 – were other draws.

Thailand: foreign investment approvals



Source: Office of the Board of Investment

Hitachi to triple output in Germany

By Michiyo Nakamoto in Tokyo

Hitachi, the Japanese consumer electronics group, is investing Y30bn ($297m) to triple production by the end of 1998 at its semiconductor plant in Landshut, Germany.

The announcement comes at a time of rising global demand for semiconductors driven by increased demand from the personal computer, telecommunications and consumer electronics industries. Hitachi's decision is the latest in a series of expansion plans by leading semiconductor makers.

The expansion could create 260 jobs at Landshut, which already employs about 700 people, and comes despite concerns about Germany's high labour costs. The strong D-Mark, along with high labour costs, has forced many German companies to consider relocating to cheaper locations abroad.

Hitachi has semiconductor manufacturing facilities in Japan, Malaysia and the US, where it has a joint venture with Texas Instruments. Hitachi said that, while it had concerns about the high costs of operating in Germany, these were outweighed by the high quality of the labour force, the infrastructure and need to be located in the European market.

Hitachi said Landshut's production of advanced dynamic random access memory (D-Rams) chips and microcontrollers would rise from 1m units of 16-megabit D-Rams a month to 3m units a month when the plant starts to run at full capacity in the second half of 1998.

Hitachi opted for increased output at Landshut, one of its three semiconductor manufacturing facilities outside Japan, because Landshut has spare capacity and Hitachi has good relations with local industry.

At the same time, the EU's 14 per cent tariff on semiconductor imports makes it more sensible for the Japanese company to expand production within the EU in order to sell there, the company said.

Pirate death threats shut China CD watchdog

By Alice Rawsthorn

The International Federation of the Phonographic Industry, the body representing the global music industry, has temporarily closed its operation in southern China after receiving death threats against its staff.

Southern China is one of the main centres for the production of pirate compact discs in Asia. The threats against the IFPI's employees follow the start of its campaign to stamp out the manufacture and sale of unauthorised recordings in the region.

The IFPI has decided to close its Canton office after being informed that local pirate CD factories had hired hit-men to halt its activities. Mr Nic Garnett, director-general, said he had "no hesitation" in sanctioning the withdrawal. The people employed in Canton have been temporarily re-assigned to IFPI offices in Beijing and Shanghai.

Piracy is one of the most pressing problems facing the $35bn international music industry. The leading record companies, including subsidiaries of Philips, Sony, Time Warner, Bertelsmann and Thorn EMI, have mounted intensive political lobbies to halt it. They also fund anti-piracy operations through the IFPI.

Music piracy is rife throughout Asia, but the industry has had some success in curbing it in some countries, notably Hong Kong and the Philippines.

Its political efforts have also gained weight in recent years, partly because of the cross-over of ownership with the Hollywood film industry, historically a powerful political lobby in the US.

The IFPI, which monitors pirate music activity in 59 countries, estimates that the value of unauthorised sales in those markets fell by 2 per cent in 1994 to a total of $2.2m, against legitimate sales of $35.5bn.

However the Chinese pirate plants pose a serious threat to the music industry. These factories flood the potentially lucrative Chinese market with illegal recordings. Some $250m-worth of pirate music was sold in China last year, according to the IFPI, against $241m of legitimate recordings. They also export pirate CDs and cassettes to other countries.

The Chinese authorities last year struck an agreement with the US government to crack down on music piracy. China's anti-piracy drive culminated in the recent closure of an illegal CD factory. Mr Garnett said the threats against the IFPI staff showed the anti-piracy campaign had reached "a critical point".

The IFPI, which has previously temporarily closed offices in Taiwan and Thailand following similar threats to staff in those countries, intends to appeal to the Chinese government for support in its efforts to re-open the Canton office and to protect its employees there.

GM looks to Poland for new plant

By Christopher Bobinski in Warsaw and Kevin Done in Bratislava

General Motors, the US vehicle maker, is focusing its search for a new east European car plant site on southern Poland in the region around the city of Katowice.

Mr David Herman, chairman and managing director of Opel, GM's largest European subsidiary, said yesterday that the US group was planning to invest about DM500m ($359.7m) in the first stage of the project to create a capacity to build 72,000 cars a year.

Mr Herman met Polish government officials to discuss financial conditions for the project, including corporate taxation relief and customs duty incentives.

He said that GM hoped to give the final go-ahead for the project by the end of January. Construction work is planned to begin in April next year with car production due to start in the spring of 1998.

GM has told the Polish government that it is also examining the expansion of the plant in a second stage with the investment of a further DM250m-DM350m to raise capacity to 150,000 cars a year.

In the first stage it is planning the production of a low-cost family car based on the current Opel/Vauxhall Astra, which would be for sale mainly in central and eastern European markets. In the second stage GM could produce a smaller car, which is still under development at its technical centre in Germany. The car would be for sale throughout Europe.

Mr Herman said that the search for a plant had been concentrated on the region of Upper Silesia within a 100km radius of Katowice.

This area, in the heart of the Polish coal mining region, offers some of the most attractive financial incentives for new investors, as the existing local heavy industries are facing a daunting restructuring task.

The region is also one of the most heavily polluted in Europe. GM is concerned about the potential environmental risks of siting a plant in this region, and it is also looking at alternative locations in southern Poland, where it can still take advantage of the close proximity to many existing automotive components suppliers in Poland and in the north of the Czech Republic.

In some designated economic development zones the Polish government currently offers complete relief from corporation tax for up to 10 years, a further 10 years in which corporation tax would be paid at half the normal rate, as well as relief on customs duty for imported plant and equipment.

Herman: looking at Poland

EdF to support DM1.2bn Slovak nuclear project

By Kevin Done, East Europe Correspondent, in Bratislava

Electricité de France, the French state-owned utility company, is to provide technical and support services for the DM1.2bn ($860m) project to complete the first two units at the Slovakian nuclear power plant at Mochovce.

The agreement was signed by EdF and Slovenske Elektrarne, the Slovakian state-owned utility company in Bratislava yesterday.

The Mochovce scheme, which has run into strong opposition in particular from nearby Austria, is aimed at completing the first two of four 440 megawatt reactor blocks planned for the site.

Construction at Mochovce started at the beginning of the 1980s, but was halted a decade later after the collapse of communism, when funds ran out.

The first of the four reactors, which are Russian-designed VVER pressurised water reactors, was 90 per cent complete, when work was halted, and the second block was 80 per cent complete.

Mr Vladimir Grujbar, Slovenske Elektrarne board member for strategic planning, said the company hoped to re-start work at Mochovce next spring with the aim of beginning power generation at the end of 1997 with block two entering operation a year later.

An earlier plan for the project to be partly financed by the European Bank for Reconstruction and Development collapsed earlier this year, but the Slovak utility is planning alternative finance from Russia, two leading Czech banks, Slovak banks and a west European bank.

Czech, Russian and Slovak groups will be the leading contractors on the project with safety improvements by Siemens of Germany and Framatome of France.

Mr Grujbar said that the new power station at Mochovce was needed to meet higher electricity consumption, which has grown this year by about 8 per cent rising with the 6 per cent growth in Slovakia's gross domestic product.

The new units at Mochovce were also needed in order to allow the shut-down of the two oldest reactor blocks in Slovakia at the Bohunice plant, which have given cause for international concern over safety levels at the old Soviet-designed plant, which dates from the 1970s.

Slovenske Elektrarne said yesterday that the Mochovce plant would be completed in line with the safety criteria laid down by the International Atomic Energy Agency.

Leeson plans appeal against his sentence

By Kieran Cooke in Kuala Lumpur

Mr Nick Leeson, the Singapore-based futures trader blamed for running up $1.4bn losses and bringing down Barings merchant bank, has given notice he will appeal against the sentence handed down by a court in the island republic earlier this month.

Mr Leeson pleaded guilty to two charges of cheating and was sentenced to six-and-a-half years' jail. Mr John Koh, Leeson's Singapore lawyer, said the appeal would be specifically against the sentence imposed on one of the charges, that of cheating the Singapore International Monetary Exchange (Simex) by falsely reporting trading positions.

On that charge, Mr Leeson was sentenced to six years. On the other, of deceiving Coopers & Lybrand, the auditors of Barings Futures Singapore, he was sentenced to six months.

Senior district judge Richard Magnus, in his judgment of the case delivered on December 2, laid much emphasis on the effect Mr Leeson's action had had on Simex. Mr Leeson had "spun a web of deceit," said Mr Magnus. His action had impacted on Simex. "It placed the integrity of Simex at risk."

In his mitigation plea, Mr Koh pointed out Simex had suffered no actual loss due to Mr Leeson's dealings. "There was no harm to Singapore because investors did not suffer any financial losses. There was no need for the exchange to close. Simex has demonstrated its resilience and the effectiveness of its safeguards," Mr Koh said.

Mr Koh says Mr Leeson will wait for the more detailed written judgment from Mr Magnus before finally deciding whether or not to go ahead with the appeal. The written judgment is likely to be delivered in the next month.

Under Singapore law, a sentence can be increased as well as reduced on appeal. The maximum sentence for the charges to which Mr Leeson pleaded guilty is eight years.

Following his extradition from Germany at the end of last month, Mr Leeson faced 11 charges. Nine were put aside following negotiations between Mr Koh and the Commercial Affairs Department (CAD), Singapore's financial police.

An official Singapore inquiry into the Barings collapse suggested an attempted cover-up by senior management of Mr Leeson's trading losses and talked of "institutional incompetence" at the bank.

Reports circulate in Singapore that the CAD plans to move against other former Barings employees. Two former Barings Singapore-based senior managers are still in Singapore and have surrendered their passports to the authorities.

Mr Koh has said that since his return, Mr Leeson co-operated fully with the CAD. It is unclear if Mr Leeson's evidence directly implicated others in the events leading to the Barings collapse.

'Father of Chinese dissidents' goes on trial in Beijing today

By Tony Walker in Beijing

Mr Wei Jingsheng, China's most prominent dissident, goes on trial today in a Beijing court for the capital offence of sedition in a case that is certain to revive international disquiet about China's human rights behaviour.

Mr Wei, 46, was detained on April 1 1994 and held without trial for more than 20 months before it was announced that he had been charged with seeking to overthrow the state – a charge that carries the death penalty.

The man sometimes described as the father of China's tiny dissident movement has been held incommunicado since his detention last year. His family was denied information about his whereabouts.

In 1979 Mr Wei was sentenced to 15 years in jail for sedition and for allegedly selling military secrets to a foreign reporter. He was released on parole in 1993.

International human rights groups have roundly condemned the Chinese action, describing Mr Wei's scheduled appearance in court as a "show trial".

"Amnesty International considers Wei Jingsheng to be a prisoner of conscience who is being held for the peaceful exercise of his right to freedom of expression and association," said the human rights group. It repeated its call for his immediate release.

Western governments have responded relatively cautiously to news that Mr Wei was to be brought to trial. US comments have been restrained, although the state department spokesman made a firm plea yesterday for his release.

"We do not believe there's any justification for his detention by the Chinese government, much less his trial," said Mr Nicholas Burns.

In Beijing, a western official said China, in holding Mr Wei's trial now, was "clearing up some outstanding business".

"It had to be done at some stage and this is as good a time as any from the regime's point of view."

China's leaders, including President Jiang Zemin, recently concluded a busy schedule of overseas visits. They would not have wanted the trial hanging over missions which included Mr Jiang's appearance in October at the United Nations and his subsequent attendance at the Asia Pacific Economic Co-operation forum in Osaka, Japan.

Western officials in the Chinese capital said the trial was unlikely to cause much of a ripple in China itself, except among a small and beleaguered group of dissidents whose voices have all but been stifled in the past year or so.

"The dissidents are pretty marginal these days," he said. "There is no strong evidence they influence the way in which Chinese politics develops."

Speculation in Beijing about Mr Wei's fate includes both a lengthy prison sentence, and possibly an expulsion order, although the latter was denied yesterday by the foreign ministry spokesman.

Asked whether Mr Wei would be convicted and then sent abroad for "humanitarian" medical care, Mr Chen Jian said: "My answer is No." Germany recently offered sanctuary and other states are believed to be considering doing the same.

Mr Wei is by far China's most credible voice of dissent. He endured 14 years in jail stoically for his role as a leader in the late 1970s of the "Democracy Wall" movement, and when he emerged he was not afraid to resume his relentless advocacy of democracy.

"China is changing, so how can the Communist party remain unchanged?" he asked reporters. "The question is whether that change can keep up with the pace of change in society. If it can't, then I'm afraid what has happened in the Soviet Union and eastern Europe will happen here. People will rise up and topple the government and then there will be turmoil."

Mr Wei's family say they have been given little information about the trial, and they are fretting about whether he will have adequate legal representation. "I hope he'll be acquitted and released I don't want him to suffer any more," said Ms Wei Ling, his sister. "It's been so many years. I'm really worried. I don't know what grave consequences there will be."

A protester holds a poster of Wei Jingsheng in a Hong Kong demonstration yesterday *Associated Press*

Asean bows to nuclear powers' pressure on treaty

By Ted Bardacke in Bangkok

The Association of South-East Asian Nations will review, and is likely to revise, some clauses in its planned treaty declaring the region a nuclear weapon-free zone to take into account objections of the five nuclear powers, led by the US and China.

The revision will not delay the signing of the treaty, still scheduled for Friday by the heads of government of Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

The treaty outlaws possession and use of nuclear weapons in the region. Asean had hoped the five acknowledged nuclear powers – China, France, Russia, UK and US – would sign a protocol pledging to support its provisions. But they have objected that the treaty as written is too comprehensive.

The treaty can still be revised before Friday, but it appears Asean will rewrite portions after it is signed, Asean officials and diplomats say. They can do this because the treaty will not come into force until seven of the 10 signatories complete ratification procedures in their home countries.

Two main objections will have to be addressed. First is a clause banning the use of nuclear weapons in the region. The US and the UK have said this would be tantamount to a no-first-use declaration, something they are unwilling to do.

A second objection deals with the geographical scope of the nuclear weapon-free zone. China and the US object to the coverage of the treaty being extended to the 200 nautical-mile exclusive economic zones of the countries in the region.

China fears this could be taken as tacit recognition of claims by some of the Asean nations on the disputed Spratly Islands. The US says the provisions could restrict its ability to move nuclear-armed ships and submarines throughout the Pacific, and might contravene the international law of the sea.

Some officials have been frustrated by this objection, because the treaty clearly allows for the right of innocent passage for vessels which might carry nuclear weapons and allows individual countries to decide whether to allow those vessels to dock at their ports and to land at their airfields.

But Asean officials say they are willing to try to make concessions in these areas because the treaty's real aim is not to rid the region of nuclear weapons – several countries are quite happy with the security provided by the US nuclear presence in the region – but to ensure no south-east Asian nations acquire or develop nuclear weapons of their own.

Arrests will bring back Seoul's honour, says Kim

By John Burton in Seoul

South Korean President Kim Young-sam's arrest of his two military-backed predecessors was "a glorious revolution" that would restore the country's honour and re-win its self-esteem, he said yesterday.

Mr Kim's statement, read by the presidential spokesman in a national broadcast, was his first public comment on the cases against former presidents Roh Tae-woo and Chun Doo-hwan for alleged corruption and staging a military coup 16 years ago to the day.

The speech seemed aimed at restoring Mr Kim's reputation as a political reformer ahead of crucial elections in April that threaten to deprive the government of its majority.

Mr Kim's image has been damaged by his political co-operation with allies of the two former presidents in the ruling party, and allegations he accepted illegal contributions from Mr Roh for his 1992 presidential campaign.

He did not refer to allegations concerning his campaign finances; the administration is withholding comment until the prosecution has completed its investigation of Mr Roh's $575m slush fund.

Mr Kim stressed his record as a dissident under the military rule of Mr Chun between 1980 and 1988. "In the process, I suffered enormous persecution and endured indescribable insults and pain," he said.

He called for "breaking of the collusion between politicians and businessmen" that had contributed to widespread corruption. "I have taken the lead" to that goal, he said.

Mr Kim also justified his previous inaction in prosecuting the two presidents for their roles in the 1979 army takeover and the subsequent Kwangju massacre of democracy protesters in 1980. He had been criticised for earlier statements that the events of 1979 and 1980 should be left to the judgment of history.

The president said he made such an appeal based on the "expectation that those who committed wrongdoings would repent and seek forgiveness from the people and follow the path of penitence. Such an expectation had "burst like a bubble" following the disclosure of Mr Roh's slush fund, which had "seriously damaged the reputation of our country."

ASIA-PACIFIC NEWS DIGEST

KMT chiefs face expulsion

Taiwan's ruling Kuomintang party (KMT) is set today to expel two vice-chairmen after they campaigned in the recent general elections for the rival New party, which supports unification with China.

The expulsion of Mr Lin Yang-kang and Mr Hau Pei-tsun will widen the split between conservative KMT members seeking closer ties with the mainland, and those, including President Lee Teng-hui, who want a period of separate international recognition for Taiwan ahead of eventual reunification.

Mr Lin has already announced he will run against Mr Lee in next spring's presidential elections with Mr Hau, a general who commands strong support in the military, as his vice-presidential candidate. Analysts say a struggle between the mainlanders, who have traditionally dominated the KMT and the increasingly influential native-born Taiwanese members, underlies the split. But Mr Lin and Mr Hau said they would refuse to accept the expulsions and there was doubt about whether the move would prompt an exodus of mainlanders from the party.

Some analysts say the mainlanders would be reluctant to lose control over the huge financial assets built up by the KMT during nearly five decades of office. Mr Lee remains favourite to win the presidential election, though by a smaller margin, but the expulsions may make life harder for the KMT in Taiwan's parliament where it now commands only a small overall majority. *Peter Harmsen, Taipei*

Castro arrives in Tokyo

Cuba's President Fidel Castro arrived last night on his first visit to Japan. The trip comes at a sensitive time in Tokyo's relations with Havana, three days after Cuba and two other countries abstained from voting on the successful United Nations resolution to remove the so-called "enemy clause" from the UN charter.

This refers to second world war enemies of original UN charter signatories, including Japan and Germany. The abstentions of Cuba, North Korea and Libya were "regrettable", said Mr Koken Nosaka, Japan's chief cabinet secretary. Mr Castro, on his way home from official visits to China and Vietnam, is today due to meet Mr Yohei Kono, Japan's foreign minister, and may meet Prime Minister Tomiichi Murayama, who is also head of Japan's left-wing Social Democratic party.

Mr Kono is expected to praise Cuba's efforts at opening its economy, but might also touch on the issue of unpaid Cuban debts, a Tokyo foreign ministry official said. The Caribbean state owes Japanese private-sector companies an estimated $2.3bn, including official export insurance, but Japan's official aid to Cuba is negligible. *William Dawkins, Tokyo*

Japanese machinery orders rise

Japanese producers of computers and semiconductors went on a machinery buying binge in October, the government's Economic Planning Agency announced yesterday. Their purchases led an 11.8 per cent rise in overall private-sector machinery orders to Y1,100bn ($10.9bn), the highest in four months. Machinery purchases are closely watched by Japan's economic policy makers, as an advance indicator of corporate capital spending.

Machinery orders rose 4.6 per cent in the year to October. That more than made up for the 0.9 per cent drop in the previous month, which had marked a pause in 15 consecutive months of increase. *William Dawkins*

Sihanouk half-brother reprieved

Cambodian co-premier Hun Sen agreed yesterday to an appeal by King Norodom Sihanouk to show mercy to Prince Norodom Sirivudh, the king's detained half-brother, by sending him into exile. Prince Sirivudh was arrested on November 21 and charged in connection with an alleged plot to assassinate Mr Hun Sen.

"If he refuses [to leave], he turns down the proposal of His Majesty the King," said Mr Om Yentieng, the premier's media adviser. A foreign human rights monitor said: "It's a full-fledged victory for Hun Sen and [first prime minister Prince Norodom] Ranariddh." Prince Sirivudh, number two in the coalition government's royalist Funcinpec party, has maintained his innocence. *Reuter, Phnom Penh*

N Korean forex dealer defects

North Korea's financial élite suffered its first defection to South Korea yesterday, following a stream of other defectors ranging from military officers to loggers. Mr Choe Se-yong, a foreign exchange dealer for a North Korean trading company in an undisclosed European country, arrived in Seoul accompanied by his wife and two children. Mr Choe's father was an ex-director of the finance and accounting department for the North Korean Workers' party and an alternate member of the central committee. *John Burton, Seoul*

Singapore ex-chief minister dies

Mr David Marshall, the first chief minister of Singapore, died yesterday aged 87. He had been suffering from lung cancer. Mr Marshall won parliamentary elections for Singapore's first elected government on the Labour Front party ticket in 1955. He resigned in June 1956 after failing to negotiate better terms for Singapore's self-government from Britain.

He continued to be active in politics until 1972, however, frequently criticising the People's Action party which has dominated Singapore's government since independence. He served 15 years as ambassador to France, Spain, Portugal and Switzerland until 1993, when he returned to Singapore. He was born in Singapore to an Orthodox Jewish couple, fought against the Japanese in the second world war, and was a prisoner of war. *Reuter, Singapore*

Japanese regions vie for capital crown

The debate over Tokyo's future has broken out again, reports Michiyo Nakamoto

The Nasu Highlands in north central Japan are famous mainly for their dairy farms, hot springs and the Emperor's summer residence. But recently Nasu has added something different to its claim to fame. It has put itself up as a candidate for the site of Japan's new capital.

Local government officials in Tochigi Prefecture, where Nasu is located, believe they will be justified in recommending the region when the national government's investigation committee for relocation of the capital unveils its final report today outlining the conditions which must be met by any new capital city.

Not for the first time in recent history, the Japanese government is considering the possibility of moving the capital's functions out of Tokyo. The debate has emerged time and again since 1964 when the construction ministry came out with an initial plan. Throughout the 1970s and '80s, the government continued to ponder the need for a new capital to ease the strains on Tokyo.

But what gives proponents of the idea greater hope this time is that two years ago, both houses of the Diet passed a resolution calling for relocation.

The earthquake which devastated Kobe in western Japan this January has also raised concerns that if a similar quake hits Tokyo, Japan could be paralysed. Such concerns are taken seriously since Tokyo, which suffered a damaging earthquake in 1923, is believed to be overdue for another big quake.

The ruling coalition has shown some enthusiasm for relocation as a positive measure that could help boost Japan's sagging domestic economy.

Most people agree the economic benefits of a move, which would cost an estimated Y14,000bn (£90bn) over the first 10 years and generate a huge amount of construction work, could be significant. As the country muddles through a slow and uncertain recovery, the building of a new capital could provide a positive goal and a vision of a better future.

But its proponents believe the best argument for moving the capital lies in the longer-term impact of breaking the concentration of power in Tokyo.

The concentration of political power, economic activity and information there and the tight regulation by bureaucrats have created a costly and inflexible social structure, argues Mr Taichi Sakaiya, a consultant and member of the investigation committee.

Since it would be impossible to move each central ministry in its entirety to the new capital, relocation would require evaluation of the ministries' functions, and would stir debate on what they should do and what should be left to local governments, Mr Sakaiya believes.

Mr Hajime Funada, a member of the opposition New Frontier party, agrees a move would help create a smaller government. "Nobody takes all their belongings with them when they move house," he told a Japanese newspaper. Moving the capital would be a good opportunity for administrative reform.

Not everyone is enthusiastic. On the other side of the debate are those who believe moving the capital would just create another mini-Tokyo. The only ones who would benefit are people who live in that area, critics maintain.

Even if bureaucrats were relocated outside Tokyo, they would just set up Tokyo offices and carry out business as usual, thereby duplicating the costs and functions of the central government, it is argued.

As the debate rages on, no fewer than 16 prefectures, encouraged by the prospect of becoming the site of the new capital, are running campaigns extolling their virtues.

While Nasu may boast beautiful countryside and fair summer weather, Gifu Prefecture is proposing a site just north of Nagoya. "The main advantage is that Gifu is centrally located," points out Mr Shigeki Tomita, section chief in the planning and co-ordination department of the Gifu prefectural government.

Further north, the Tohoku Economic Federation has been working to convince the central government that new developments into which it has been pumping money should be considered leading candidates.

If all goes as planned, the site for the new capital will be chosen, based on today's report, by 1997 and construction will begin in 2000 for completion by 2010.

Whether the move ever happens will depend to a large extent on political will. For their part, central bureaucrats have not expressed great enthusiasm for the idea of giving up their daily commute into central Tokyo and moving in with the cows.

Employees say they are expected to work far more hours than colleagues elsewhere in Europe

Unions at Ford to hold strike ballot soon

By Robert Taylor, Employment Editor

Ford UK's 22,000 manual workers are to balloted on strike action next month. The ballot move was decided yesterday by trade union negotiators who unanimously rejected the company's "final" 9.2 per cent two-year pay offer. They said they would seek a further meeting with Ford in a "last-ditch attempt to reach a negotiated settlement acceptable to all Ford car workers".

Mr Tony Woodley, national officer for the motor industry with the Transport and General Workers' Union, said: "Our decision to hold an industrial action ballot is the next logical stage in the campaign by Ford workers to win a fair share of the profits they have created for the company and to end discrimination in working hours against the company's UK workforce".

He added that unions would not ask the workers to back an overtime ban or action short of a stoppage but to go for a strike. Ballot papers are expected to be sent to Ford workers in the second week of January with the result announced about three weeks later. Any industrial stoppage at the company would not be expected before the second half of February. Mr Woodley added that union negotiators were "still optimistic" about avoiding industrial disruption if Ford would improve its latest offer.

"We believe this dispute can only be resolved if there is a recommendable settlement", said Mr Woodley.

"It is important for Ford's competitive position in the UK that a negotiated settlement can be arrived at," added Mr Jimmy Airlie, secretary of the unions' negotiating team and a member of the executive council of the AEEU engineering workers' union. "The company can be under no illusion that unless significant improvements are forthcoming, the unions are determined to conduct a massive campaign for a Yes vote in the ballot on industrial action".

Union officials are demanding a 10 per cent annual wage increase and a cut of two hours in the basic working week which, they say, would bring Ford UK workers into line with the company's agreements elsewhere in Europe. "There has been a basic 15 per cent wage drift below the rates paid by the majority of the company's UK car competitors", said Mr Woodley. He claimed that Ford workers were "furious at the industrial apartheid which means the shorter working week enjoyed by their colleagues elsewhere in Europe totals a staggering 28 days a year in extra work for Ford UK employees".

Workers at Dagenham in east London and Southampton on the south coast of England appear to be in a mood to strike. But the unions may have more difficulty in securing support for a stoppage at the company's plants in south Wales and north-west England.

● Union officials at Vauxhall, the British offshoot of General Motors, claimed that the overtime ban and unilateral cut of two hours in the working week by 11,000 workers there was hitting the company hard. Vauxhall unions and management are to meet tomorrow.

Japanese carmaker Nissan and the UK's Cranfield University are launching a three-year, government-backed programme to upgrade the design and development capabilities of component suppliers to Nissan's plant in Sunderland, north-east England, which annually buys £550m ($841.5m)-worth of parts in Britain, *John Griffiths writes.*

The programme should permeate through to hundreds of other UK suppliers, substantially upgrading the UK components industry's ability to win business with carmakers around the world, government officials and Nissan executives said at the launch of the initiative yesterday.

Nissan executives also yesterday claimed as "partly misguided" several studies which have criticised UK suppliers for persistent wide quality and productivity gaps between UK and Japanese component suppliers.

Nissan released figures yesterday showing that 47 per cent of its 204 European suppliers - 131 of which are based in the UK - are now achieving a quality standard of 10 or fewer defective parts per million.

This is far inferior to the achievements of Nissan's Japanese suppliers, 70 per cent of which are meeting the standard of 10 or fewer defective parts per million. However, it represents a big improvement on the 17 per cent of European suppliers meeting the standard about two years ago.

National Lottery Political furore centres on US company with 22.5% stake in consortium

Probe urged into regulator after flights admission

By John Kampfner, Chief Political Correspondent

The opposition Labour party yesterday raised serious doubts about the ability of Mr Peter Davis to continue as regulator of the National Lottery after he admitted taking free flights from a member of the winning consortium.

Mr Jack Cunningham, the party's heritage spokesman, urged the government to launch an inquiry into Mr Davis's fitness for the job of director-general of lottery regulation following his testimony to the House of Commons public accounts committee.

Mr Cunningham reminded Mrs Virginia Bottomley, minister responsible for the lottery, of her right to "remove a person from office as director on the ground of incapacity or misbehaviour".

Mr Cunningham added: "I believe it is your responsibility to investigate the director's behaviour promptly. His position must be open to doubt." However, He stopped short of calling for Mr Davis's dismissal.

Mr Davis admitted to the committee on Monday night that, while visiting the US in 1994 to look at lottery companies, he took flights in a private aircraft belonging to GTech, a US company which has a 22.5 per cent stake in Camelot, the consortium awarded the British lottery licence.

Ministers have indicated they are standing by Mr Davis, whose conduct they have described in the past as "exemplary".

But their failure to reaffirm their support for him publicly was seen by the opposition as a sign of government hesitation.

Mr Davis's performance at the committee, when he refused to discuss issues relating to two court cases in the US against employees of GTech, infuriated several MPs.

Richard Branson in Tokyo yesterday: Let's let the courts decide who is telling the truth"

Mr Richard Branson, head of the Virgin group and of one of the unsuccessful bidders in 1993 for the lottery licence, said in a BBC television interview that he had been offered what he understood was a bribe from Mr Guy Snowdon, chairman of GTech.

Mr Cunningham said last night Mr Davis was in no position to investigate Mr Branson's allegations. Mr Davis had sought to assure the committee, the most powerful and respected of the all-party committees, that his checks on all the individuals and companies lobbying for the 1993 lottery licence had been stringent.

The committee went into secret session after Mr Davis said he could not divulge in public details of his probes on the various contenders.

GTech, which runs lotteries in the US, has furiously denied Mr Branson's allegations. Mr Davis has said he is consulting lawyers over Mr Branson's assertion that he told Mr Davis about his claims.

"I would suggest to GTech, since they're accusing me of lying, that they ought to issue writs today," said Mr Branson. "Let's let the courts decide who is telling the truth and who is not telling the truth."

US operator says record 'whiter than white'

By Richard Tomkins in New York

Gambling is a business with an image that is less than squeaky clean, so big operators like GTech of the US grow accustomed to questions about the means they employ to win contracts. Yet Mr Richard Branson has broken new ground with his allegation that the company tried to bribe him to drop his bid to operate Britain's national lottery.

GTech is by far the world's biggest operator of automated lotteries, running 72 lotteries on behalf of governments and other public authorities on five continents. In the US, it operates 27 of the 37 state lotteries.

The company's record is unblemished by any evidence of impropriety: it has never been charged with any wrongdoing. But earlier this year its methods of winning contracts came under scrutiny in the US when its former national sales manager faced charges of conspiracy, fraud, money-laundering and bribery.

Federal prosecutors alleged in a Kentucky court that the former manager, Mr J. David Smith, set up a shell company called Bluegrass Industrial Distributors to convey payments from GTech to himself and a former Kentucky state official, Mr L. Roger Wells.

Mr Smith's lawyer argued during the trial that GTech frequently made "goodwill" payments such as these in states where it was seeking contracts to operate lottery systems. GTech, which was not a defendant in the trial, strongly denied the suggestion: it said it was unaware of the alleged scheme, and that if the charges were true, the company had been a victim.

The judge concluded that the federal prosecutors had presented too little evidence to support the charges and acquitted the two men. However, the company seems set to face further adverse publicity over the case next year when Mr Smith is called to answer similar charges over the affair in a New Jersey court.

News media in the US have seized upon the case as an opportunity to ask whether GTech crossed legal boundaries in the fiercely competitive lottery business, using money to gain influence and win contracts. The Houston *Chronicle* claimed that FBI agents met last year to compare notes and consider investigating the company.

GTech acknowledged it had paid political consultants and others for advice. "We hire people for the same reasons that everybody else hires people, and that is for services rendered," said Mr Robert Rendine, GTech's director of public relations. "That could be business consulting, government relations or buying paper clips and pencils."

Mr Rendine said: "Our business practices have been well reviewed in the US and the company has never been accused by anybody of doing anything improper. It's never been the target of an investigation, nor is it the subject of an investigation by the FBI.

"When you operate in an industry as highly scrutinised and closely monitored as this, you have to have a record that is whiter than white. We operate 70 per cent of the world's lotteries. That speaks to our record better than anything else."

Lottery rules, Page 11

Cost of simplifying tax law will be $38m

By Jim Kelly, Accountancy Correspondent

It will take a team of 40 experts five years to rewrite 6,000 pages of tax law under a *simplification scheme* announced yesterday by the Inland Revenue - and the private sector is to help.

Mr Kenneth Clarke, chancellor of the exchequer, has ordered that preparatory work should start immediately. The Inland Revenue estimates that the project will cost £25m ($38m), but will help cut the annual £4bn cost of complying with tax laws.

It seems certain that the government will press ahead with the Inland Revenue's full plans - outlined in a special report to parliament. The Labour party said it would "force the pace" on the project.

Welcoming the Inland Revenue's report, Mr Michael Jack, a junior minister at the Treasury, said: "I have been struck by the widespread and heartfelt feeling that tax law has become so lengthy, complex, and impenetrable that something has to be done.

"But I hope everyone will recognise that, however much we work at the language, tax law is never going to be plain sailing. The complexity of the modern world, which needs to be reflected in tax legislation, will see to that."

Mr Ian Barlow, head of tax at KPMG, the accountancy firm, said businesses were finding it increasingly difficult to understand tax legislation. "Tax simplification will provide more certainty and so reduce compliance costs," he said.

The report's recommendations follow a growing campaign to simplify tax law from lawyers, accountants, politicians and others.

The central recommendation of the report is that the existing tax law can be rewritten in clearer and simpler language - with better layout and design. It found that tax law was expanding fast even though more taxes had been abolished since 1980 than had been introduced. Tax experts have been worried that the law is now so complex it often defies even professional understanding.

Although the Inland Revenue report does not call for a radical reform of the underlying structure of tax law, it does put forward ideas to streamline the "production line" which brings the finance bill to law. It proposes that more legislation is made available for consultation in its draft form.

EU currency again splits Conservative party

By James Blitz at Westminster

Mr John Major, the prime minister, yesterday reaffirmed his concerns about the creation of a single currency by a minority of European Union members states. He pledged to warn against such a move at this weekend's Madrid summit of EU leaders.

As a fresh round of discord broke out within the Conservative party over the UK's approach to monetary union, Mr Major said the creation of a single currency by a handful of EU governments "raises a whole range of issues that have not yet been properly considered."

He indicated in the House of Commons that he had strong concerns about the creation of a single European currency by a handful of EU states before the end of the century.

He said he would seek further examination of the issue at Madrid, amid signs that French and German politicians see such a move as the only way of achieving Emu before the end of the century.

His comments won immediate support from Mr John Redwood, one of the leading Eurosceptics in the Conservative party, who mounted a challenge for the party leadership in the summer. He said Mr Major had "clearly spelt out" how divisive the single currency would be, because so many EU states would not be able to join it.

He also urged the prime minister not to allow France and Germany to relax the convergence criteria for monetary union, amid signs that it will be difficult for many member states to meet the requirements detailed in the Maastricht treaty.

But the prime minister was engulfed in a fresh round of discord over Europe, with Eurosceptics and pro-Europeans calling on the Conservative party spell out its policy on a single currency in the next election manifesto. Mr Redwood said the party's opposition to Emu in this parliament was clear, but he strongly indicated that he would like the government to rule out joining a single currency in the next parliament as well.

His comments were immediately attacked by a coalition of pro-European Conservatives, including Lord Howe, the former foreign secretary; Sir Leon Brittan, the UK's senior EU commissioner; and Lord Kingsdown, who was formerly Mr Robin Leigh Pemberton, governor of the Bank of England (the UK central bank.)

UK NEWS DIGEST

Reforms urged on executive pay

A second member of the Greenbury committee on executive pay has urged that its controversial report, published in July, should be implemented in full. It recommended changes in the way directors' pay is set and disclosed, and said shareholders should be granted certain powers over elements of directors' pay. Mr Tim Melville-Ross, director-general of the Institute of Directors, said last night: "Tinker with bits of it and you will undermine the whole".

He also said that while "not every member of the Greenbury committee agreed with every detailed recommendation", the report "should be recognised for what it is - an important step forward and an important bulwark against wholly unacceptable legislation". Mr Melville-Ross's comments come three weeks after Mr Geoff Lindey, chairman of the National Association of Pension Funds' investment committee and another Greenbury committee member, warned that "powerful voices" are trying to block implementation of key aspects of the committee's report. *William Lewis, London*

TV services to merge

Dow Jones Telerate is to pull out of a separate specialist subscription television service aimed at market professionals across Europe. Instead, Dow Jones Telerate Live, a "discontinuous television" service broadcasting only when there are marketmaking events to justify it, will be integrated with European Business News from January. EBN is a joint venture between Dow Jones and Flextech, the cable and satellite channel provider. EBN was also a partner in Telerate Live. *Raymond Snoddy, Consumer Industries Staff*

Students choose business studies

Sixty-six per cent more students graduated in business studies last year than in 1993, said the Association of Graduate Careers Advisory Services. Unemployment among recent graduates fell by 2 percentage points to 9.7 per cent in spite of a 13.5 per cent increase in the number of students graduating. The Association of Graduate Recruiters, which represents the UK's 400 largest employers, said the figures confirmed an "unspectacular but steady" recovery in the graduate jobs market. Almost 18,000 students graduated in business and management studies last year - more than in any other degree subject. *Krishna Guha, Public Policy Staff*

Futures exchange expands

Face-to-face trading is to recommence on the floor of the London Stock Exchange after a gap of more than three years. This follows a deal between the exchange and Liffe, London's financial futures and options market. The agreement, which will allow Liffe to lease the 2,000 sq m trading floor at the exchange's headquarters in the City, is one of the City's largest lettings in recent months and underlines the rapid growth of the futures market since its formation in 1982.

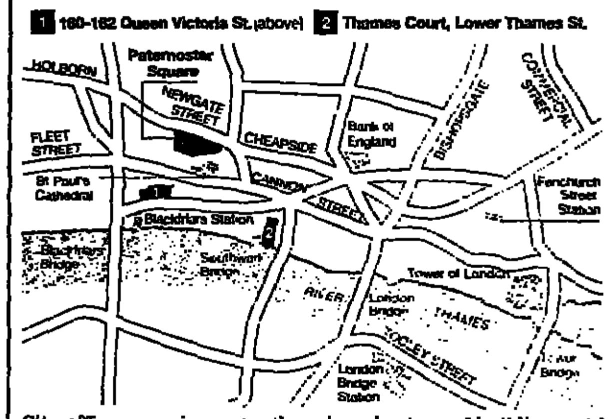
The floor, now used for office space, was last used by the exchange nearly 10 years ago before the introduction of automated screen-based trading in the wake of Big Bang. More recently, trading was conducted there by the London Traded Options Market before its merger with Liffe in 1992. *Richard Lapper, Markets Staff*

Go-ahead for developers

The City of London has stepped up its campaign to remain the undisputed centre of the UK financial services industry by granting planning permission for two large new buildings on sensitive sites. The Corporation of London, the City's local authority, is concerned that investment banks and other financial sector companies will move to Canary Wharf, the office development in London's old docklands unless it provides suitable accommodation. Although about 10 per cent of all City office space is empty, there is a shortage of buildings with large open floors of the kind demanded by investment banks. Yesterday the Corporation gave consent for a 40,000 sq m block in Queen Victoria Street and a 27,000 sq m building on Lower Thames Street. Both proposed buildings are low-rise with large floors, dubbed "groundscrapers", and faced opposition from conservation groups. *Simon London, Property Correspondent*

City development sites

1 160-162 Queen Victoria St. (above) 2 Thames Court, Lower Thames St.



Skills shortage puts a premium on programmers

Andrew Bolger and Paul Taylor on how companies keep key IT staff

Concerned that it was losing too many key staff to its rivals, Abbey National, the UK home loans and banking group, recently gave its information technology staff extra wage rises of up to 20 per cent.

Abbey's move was the latest indication of a growing skills shortage in one of the most important sectors of the British economy.

Abbey is by no means the only company to have made such an award in the past six months, although employers are generally reluctant to publicise them. Mr Graham Williams, a consultant with Executive Recruitment Services, the information technology recruitment company, says skill shortages have forced employers all over the UK to raise the salaries of IT specialists.

Staff in key areas of information technology are increasingly able to command premium pay rates. The government's most recent New Earnings Survey showed that software engineers last year earned a weekly average of nearly £500 ($765) a week. But consultants familiar with the most advanced systems can earn up to £3,000 per week.

Among the most sought-after programming skills are those associated with systems built around networks of desktop personal computers and powerful PCs, called servers.

These are replacing older mainframe-based systems in many companies because they offer substantial business benefits, such as the ability to speed up product development.

However, such systems are notoriously difficult to build and operate. This places a premium on network programming skills and knowledge of advanced software such as that developed by SAP, the German software group, or System Software Associates of the US.

SAP's R/2 and R/3 accounting system software has been adopted by many multinational companies, including Zeneca Pharmaceuticals, Conoco, the oil group, and Guinness, the drinks company. It is extremely complex and requires knowledge of business practices as well.

Programmers with SAP software experience are in particularly short supply. They can command double the standard £980 weekly rate paid to other programmers employed by companies to adapt off-the-shelf packages.

Similarly, the recent rapid growth of so-called relational database management systems, which store data in an easily manipulable format, has placed a premium on programmers familiar with these systems.

The success of Microsoft Windows has increased demand for software engineers able to use the Visual Basic or C++ programming languages to build new business applications.

Opinions vary as to whether these skill shortages are chronic or whether it is just a question of engineers catching up with the most popular applications.

Mr Doug Woodward, director of Computer People, a London-based computer recruitment service, believes temporary shortages are inevitable given the pace of change in the IT sector: "There's automatically a shortage of the newest skills," he says.

But Mr Alistair Hatchett, of Income Data Services, the independent pay monitoring body, believes inadequate training is largely to blame and that much could be done to alleviate the present situation. "There has been a very big expansion in the most skilled software work - and training has not kept up with the pace of development," he says.

This is partly the legacy of the recession of the early 1990s, which forced many IT companies to lay off trained staff. And with the economy enjoying only a gradual recovery, IT companies have been reluctant to invest heavily in training their own staff, choosing instead to rely heavily on contract workers.

Mr Peter Skyte, national secretary of the IT section of MSF, the white-collar union, believes employers are not using the potential of existing employees, particularly women.

"Women comprise only 22 per cent of IT staff in the UK compared with 39 per cent in Europe, 45 per cent in the US and 55 per cent in Singapore," he says. "Clearly other countries are able to recruit and utilise the ability of women in this field."

BUSINESS AND THE ENVIRONMENT

Government of the North West Territories

Quicker death: a Canadian trapper sets a 'humane' snare that has been designed to kill an Arctic fox instantaneously

Agreement between Europe and Canada on 'humane' snares is proving elusive, writes **Bernard Simon**

Hunting for a kinder kill

The sharply divergent values of Canadian fur trappers and European animal rights activists collide in a three-acre compound near the town of Vegreville, east of Edmonton, Alberta.

Behind a high-security fence, designed to keep protestors out, beavers, muskrat, foxes and other fur-bearing animals are methodically maimed and killed by a variety of lethal traps, with their dying moments captured on film.

To some, the compound may seem nothing short of a concentration camp for animals. But those involved in the Humane Trap Research and Development Centre say it aims to ensure that any animal caught in a trap will suffer as little pain as possible before it dies.

Traps are used throughout the world. In the Netherlands cages and other underwater devices are used to kill hundreds of thousands of muskrat, which undermine dykes, each year. Traps are used to keep pests out of bird feeding grounds in the wetlands of Louisiana. Millions of homes have a mousetrap.

However, traps laid for animals whose pelts end up as fur coats and other fashion items have become the centre of a protracted trade dispute between the European Union and several fur-exporting countries, notably Canada, the US and Russia.

The dispute stems from a 1991 EU regulation that barred the use of jaw-type leg-hold traps in EU member states and banned imports of 13 species of fur from countries using leg-hold traps. Under the regulation, imports would only be allowed from countries where "humane trapping standards" applied.

A leg-hold trap holds an animal until a trapper arrives. The campaign against these traps was fuelled in the late 1980s by gory pictures of animals gnawing off their limbs in a frantic effort to escape.

But the EU regulation has provoked an outcry in Canada, where 72,000 trappers earn between C$30m (£13.8m) and C$35m a year from pelt exports to Europe.

Remote communities in northern Canada depend on trapping for as much as 60 per cent of their income. The trappers claim they perform a valuable information service for wildlife conservation officials. They also point out that they use almost the entire animal, compared with most European countries, where whatever is caught in a trap is treated as a pest and disposed of.

Canada has outlawed the use of steel-jawed leg-hold traps on land for more than a dozen species, including otters, mink, beaver and muskrat.

But these traps are still allowed for larger animals, such as wolves, foxes and lynx. These species cannot easily be caught by quick-kill traps. Killing traps tend to be large, heavy to carry, and potentially dangerous to humans.

Underwater traps, which usually restrain an animal until it drowns, are also widely used in North America and Europe for semi-aquatic species such as otter and beaver.

The EU regulation assumed that work on widely accepted "humane" trapping standards, begun by the International Standards Organisation in 1987, was close to bearing fruit. The regulation was due to take effect on January 1 1995, but agreement on the definition of a "humane" trap has proved elusive.

Implementation of the ban was postponed for a year to January 1996. Under pressure from fur exporters and amid dissension in its own ranks, the European Commission recently recommended that the ban be delayed again until the beginning of 1997.

But the latest delay is unlikely to be approved by the Council or the European Parliament until well into the new year, creating considerable confusion about which rules will apply from the end of this month.

The heart of the problem, as one person familiar with the dispute puts it, is that "the ISO has never agreed a standard that has a moral dimension to it. What's humane to you and me may not be humane to someone else."

How quickly must an animal be killed once it is caught in a trap? What level of trauma is acceptable before it dies? These are among the many imprecise but highly-charged questions that the research centre near Vegreville and trade negotiators have tried to answer.

Fur exporters have pressed for a wide definition that would exclude only steel-jawed leg-hold traps. But radical animal rights groups are against all forms of killing.

The Canadians were confident up to two or three years ago that they could meet one of the regulation's two alternatives, namely either a ban on leg-hold traps, or the use of traps that met internationally approved standards.

But the exporters say that the climate in the ISO deteriorated around 1992 when standards agencies in some European countries, such as Switzerland, Belgium and the Netherlands, which are generally supportive of the animal rights cause, became more actively involved in the negotiations.

The failure to agree a definition of a "humane" trap has led the ISO to lower its sights. A 15-member committee is working on a standard covering only trap testing. If all goes well, a draft testing standard will be ready next July, and a final text about a year later.

But Canada, the US, Russia and the EU set up a small working group last summer which they hope can lay the groundwork for a wider agreement. The group met for the third time in Sweden last week.

Meanwhile, the search goes on for more humane and efficient traps. Hard rubber padding has replaced steel in some leg-hold devices.

The Canadian authorities estimate that fewer than 30 per cent of fur-bearing animals are now caught in steel-jawed leg-hold traps.

The humane-trap research centre is making its own contribution, by devising software that will allow computer-generated traps to be tested on computer-generated animals. Fewer live animals will then be needed for the centre's work.

Pipe dreams turn to Norfolk's nightmare

A seaside village is proving a reluctant host to an international gas compressor, says **Robert Corzine**

Natural gas may be the cleanest and most environmentally acceptable fossil fuel. But the growing network of pipelines and compressor stations that mark its expansion across Europe has proved controversial in areas earmarked as hubs for a fast-developing European gas grid.

Two years ago protests erupted across northern Germany when Statoil, the Norwegian state oil company, tried to build a large gas pipeline across an environmentally sensitive section of the coast.

Bacton, a small village on the north Norfolk coast, is the latest focus of confrontation between the European gas industry and a local population worried about its environmental impact.

The village, better known as a low-cost summer holiday resort, is the proposed site for the UK-Continent Interconnector, a £440m project to link the UK and continental European gas grids.

Proponents of the project point to its strategic importance. The UK government has called it the single most important development to ensure the future health of the UK offshore oil and gas industry.

British Gas, the largest shareholder, urgently needs an export pipeline to eliminate a growing UK gas surplus.

Some industry observers say an undersea pipeline could even bring forward the day when continental Europe's gas markets are liberalised. That could lower gas prices and enhance the competitiveness of European industry.

London's International Petroleum Exchange even wants to create Europe's first natural gas futures contract around the gas that would pass through the proposed station.

But for residents of Bacton, the compression station which the consortium wants to build on nearby farmland is merely the latest symbol of a "long history of betrayal" by the gas industry, according to Don Venvell, a local councillor.

He says the community's first reaction to the proposal to build a compression station on a hillside site near an existing British Gas pipeline facility was "totally antagonistic."

The proposed station will house four jet turbines, pushing vast quantities of gas through the pipeline to Zeebrugge.

But the background noise from the heavily-insulated unit should be no more than that "of a quiet office," according to Philip Nolan, a British Petroleum executive who is managing director of the Interconnector consortium.

Local residents are dubious. They say the history of the gas industry in the area has been one of broken promises and "creeping industrialisation".

In the late 1960s three terminals were built on the Bacton coast to process gas from offshore fields. The companies told the community that the terminals would be dismantled within 25 years. But technical advances in discovering and recovering more gas mean they are still going strong 28 years later.

Huge amounts of gas are piped from the terminals to a nearby British Gas station, from where it enters the UK's high pressure national transmission system en route to millions of consumers in London. But the presence of the facility has not brought mains gas to Bacton and surrounding villages.

The hillside site chosen for the compressor station has upset local people

Nor has it brought many jobs, say the industry's critics. The Interconnector, for example, will be largely automated, and will need only six full-time workers.

Venvell says poor relations between the community and the existing terminals, which are run by Shell, Phillips and Amoco, have affected local attitudes towards the Interconnector. They cite noise pollution from the terminals, caused by the occasional venting of gas that does not meet quality standards into the atmosphere.

Interconnector officials concede that their task has been complicated by problems at the existing terminals. But, Nolan says, Bacton remains the "perfect site" for the new station, especially as alternatives would involve laying gas lines through the picturesque Norfolk Broads or along pristine coastal sites.

The hillside site chosen for the compressor station has upset local people. They see it and its exhaust stacks as an intrusion into a countryside dominated by Norman church spires.

Nolan says it was selected because it was far enough away from two nearby farms to ensure that there would be no noise pollution problem.

Some of those most directly affected by the proposed station say they appreciate its importance to the regional and national economy. Ernest Alexander, a pig farmer who would be closest to the plant, says he does not want to endanger the hundreds of jobs that would be at risk in Great Yarmouth, the nearby support centre for the offshore oil and gas industry.

He and other residents want the proposed station moved to another site on a lower elevation, alongside the existing British Gas facility. Interconnector, which last week lodged an appeal with the Department of the Environment over the deferment of its original plan by the local council, is studying whether the alternative site would be viable.

If a new plan emerges, local councillors say they would reluctantly drop their opposition. "If it [Interconnector] is serious in making the alternative site work, then we can't be churlish," says Venvell.

The site chosen for the Interconnector is "not of exceptional beauty," he says. "But it is a piece of English countryside at risk from creeping industrialisation." Venvell adds that the main lesson is that "local plans are no bulwark against development unless you have influential pressure groups ready to defend it."

ARTS

Television/Christopher Dunkley

'Auntie' seen as a good influence

It is not difficult to see why ITV describes the eponymous host of *Jack Dee's Saturday Night* as "acerbic": the word comes from the Latin and means sour or bitter. Dee's pose of acid distaste over the minutiae of life is so unvarying that he seems to have reached a point where he could not relax and deliver an affectionate joke even if he wanted to. But why "alternative"? To what is he supposed to be the alternative? The feigning of gloom and disgust at the tribulations of the world is as old as comedy; it goes straight back through Tony Hancock and W.C. Fields to Shakespeare's clowns.

Thus Dee is a very traditional sort of funny man – but then this Saturday night series also seems very traditional. Woefully so. The opening edition included a couple of elderly soap opera characters singing "Ah yes, I remember it well" and a young man named Lee Evans who appears, unfortunately, to model himself, or anyway his pratfalls and grimaces, on Norman Widsdom. This programme was so short on schmaltz, glamour and polish that it looked like something made before *Sunday Night At The London Palladium*. Of course in those days the host would not have been allowed to talk quite so much about farting, cat sick and poos.

★

According to BARB, the Broadcasters' Audience Research Board, *Panorama's* notorious Princess Diana interview attracted 22.77m viewers in the UK. That puts it near the top of an elite category of programmes which have managed to get above the 21 million mark during what might be called the modern era. Go back to the years before network diversification and you find programmes quite often managing 25m. Go back to the second world war and certain radio programmes achieved 27 million. But in the last few years very few programmes have gone above 20m.

Top of the list is *Torvill And Dean* at the Winter Olympics in February 1994 which achieved 23.95m. Next comes the Diana *Panorama*, and then the Christmas edition of *EastEnders* in December 1988 which managed 21.1m. All three programmes came from BBC1.

★

It had to happen eventually: though television has lied, lied, and lied again in its determination to preserve political correctness at the cost of truth. BBC2 has finally screened a programme admitting the facts about "heterosexual Aids". In *Fine Cut* it conceded that once you take away the high risk groups – needle sharing drug addicts, bisexuals, haemophiliacs, and those who have had sexual contact with Aids sufferers abroad – you are left with a figure for normal heterosexual Aids which is so small that it may be true to say (as was first pointed out in this column in the spring of 1987) there is no such thing. After all the years of "Aids is unbiased, we are all equally at risk" that is progress, however slow.

★

Next time television decides to offer us another opportunity to hear Peter Ustinov's after dinner stories, perhaps Radio Times could print the words, songsheet style, so that those of us not word perfect could chant along. Or they could run captions with a bouncing ball. They are, of course, awfully good stories, and he is an excellent mimic. His Charles Laughton, done without words, in the first of BBC1's *Evening With Sir Peter Ustinov*, was a scream, but he does seem to have been doing this sort of stuff an awfully long time.

Remember him with Michael Parkinson? Russell Harty? Colley Cibber? This time he has dispensed with an interlocutor and is giving it to them (the Canadians) straight from the stage of a theatre in Toronto. At the end of 45 minutes you could not really see why he should not go on all night…

★

The Sunday Times has published a poll, carried out for the paper by NOP, in connection with an article about whether British society, under John Major, has become "more at ease with itself", and which factors people consider to be civilising influences. The results, with "good influence" on the left and "bad influence" on the right show that tabloid newspapers came bottom, with 61 per cent opting for bad and only 19 per cent for good. The figures go up via the big banks (27 per cent good, 38 per cent bad) royal family (36 per cent good, 33 per cent bad) and others such as MPs and the legal system, to the top three: broadsheet newspapers (42 per cent good, 19 per cent bad) the Church of England (45 per cent good, 13 per cent bad) to the poll topper which was considered by 63 per cent to be a good influence and by only 11 per cent to be bad: the BBC. It puts into perspective all those claims from pressure groups that television is to blame for everything from illiteracy to serial killing.

★

Having praised Channel 4's *Secret Lives* series last week after its revisionist programme on Marie Stopes it seems necessary to add a reservation this week after their hatchet job on Robert Baden-Powell. It is no great surprise to be told that the man who created the most successful youth organisation in the world identified with boys and enjoyed their company. But if you want to go on and convince us that he was really a homosexual you need more than latterday half-baked psychobabble. Whereas *Secret Lives* came up with all sorts of fascinating evidence for Stopes' monstrousness there was nothing to hang on Baden-Powell except snide theorising. Most unpleasant.

★

Like so many of the documentaries that stick in the memory, Lucy Blakstad's "Lido" in BBC2's *Modern Times* series was pretty simple. It documented life at the Brockwell Park Lido in south London. There were attractive underwater shots, and occasional bits of arty camera-work (the shadow of balls being tossed by a juggler, for instance) but it consisted largely of footage showing how a heterogeneous crowd – adults and children, black and white, straight and gay – used the outdoor pool during the glorious summer of '95. The programme was not beyond improvement. There were longueurs, and more interviewees would have been welcome. But the triumph was to convey such a powerful sense of the lido's atmosphere. That is what will stay with us.

Opera/Richard Fairman

La Belle Villette

By far the biggest laugh of the evening goes to Signor Poggiatura, the overweight Italian tenor who enters waving a pink handkerchief and tucking into a plate of spaghetti. If you are uncertain about choosing a satirical target, it is a good idea to pick one you cannot miss.

As Christmas comes upon us, it is operetta time – cue deep groans among the regular opera-going audience at the London Coliseum, who have been served up some fairly vulgar offerings under the heading in the last 15 years or so. Afraid that it will not make an impact, the typical ENO operetta evening has been gaudy and loud, a brash entertainment that bangs the audience over the head, claps it on the back and demands that it laugh.

This year's seasonal show – thank heavens – is not like that. Offenbach's *La Belle Hélène* has a certain classical dignity about it, even if it is there to be made fun of, and in re-writing it as *La Belle Vivette* Michael Frayn has kept a sense of decorum. He has amused himself finding equivalents for Offenbach's Greek mythological characters among the composer's own milieu in Paris in the 1860s and provided them with a rather naive little story of nothingness.

The comedy smiles and romps contentedly. What it never does is prod one sharply in the ribs, as satire should. Offenbach knew his target: he was not just lampooning the heroes of ancient Greece, but the Second Empire Olympians of his own day. Frayn's version passes by almost all the opportunities, which is a shame, as he is good at repartee. "What do you think about water?", asks a stock-market investor. "Reasonably liquid", answers another. "Gas?" "A flash in the pan".

So, there are no barbs about strikes in Paris or Eurotunnel. Offenbach's pastiches of Meyerbeer and Bellini barely raise a titter; the Rossini take-off in the Act 2 finale is greeted with uncomprehending silence. In detail Frayn's libretto is intricately thought out, well versed in classical and historical references of its own, but the plot limps along and risks being as flat as last night's bubbly – if the production had not given it such fizz.

From the minute the curtain went up it was clear that the professionals are back in town. Ian Judge is the expert producer, abetted by John Gunter's colourful sets and Deirdre Clancy's period costumes. It is a slick show that keeps the performers on their toes. Who said "never share a stage with animals or children"? This cast faces semi-naked golden nymphettes, marble body-builders and a steam train, not to mention Judge's favourite revolving stage on the whirl yet again. Any more of that and ENO's unions will be demanding insurance against dizziness in the workplace.

Given some sharp-witted words to put across, the singers seem miraculously to have discovered what consonants are, a long-lost treasure at ENO. As the beautiful Vivette, Lesley Garrett looks as good as on her album covers and presents such an aura of tingling life as almost to make one think there might be a real character inside. Neill Archer is her stylish beau; Andrew Shore is predictably excellent as the harassed impresario. The supporting roles are cast from strength, including Fiona Kimm and Rosemary Ashe, Ryland Davies and Christopher Booth-Jones.

James Holmes keeps Offenbach's music light and fresh, but the key decision was Frayn's, when he chose to cut the dialogue to the minimum (a very wise decision in this theatre). The pacing is so tight that there is hardly time to stop and think how vacuous it all is. ENO has not found champagne for Christmas, but at least it has provided some bubbles.

Sponsored by The Woodward Charitable Trust. Performances until January 24.

Lesley Garrett: beautiful in the title role in Michael Frayn's rewrite of Offenbach

Alastair Muir

D'Oyly Carte heads for Newcastle

The D'Oyly Carte Opera Company, traditional protectors of the Gilbert & Sullivan repertoire, is likely to move from its base in Birmingham to Newcastle next year. It has been offered a new home in a restored Victorian building, the Tyne Theatre and Opera House, and seems certain to accept.

The D'Oyly Carte has been in Birmingham for five years but its lease expires shortly and Birmingham City Council is reluctant to continue its annual £300,000 funding bill.

In Newcastle, local entrepreneur Karl Watkin has acquired the Tyne Theatre for almost £1m and has put together an annual funding package for D'Oyly Carte of £250,000 a year; Newcastle City Council and Northern Arts are among those making a financial contribution.

As well as office and rehearsal space, the Theatre will provide D'Oyly Carte with a home base for an annual season. The company will continue to tour the UK for around 20 weeks a year.

Antony Thorncroft

Theatre/Alastair Macaulay

More bluff than poker

Men, men, men… 1995 began with the premiere of one excellent new play about men playing poker – *Dealer's Choice* – and it is closing with the first performances of a second good new play on the same subject: *According to Hoyle*, by William Gaminara.

The two plays employ quite different techniques, and are about two quite different aspects of the male poker-playing mentality. Even so, they are both about men. Both of them bring together men of markedly different social types, and both are, in particular, about the dark and/or desperate aspects of these apparently sociable men who need regularly to bond, bet, compete, and deceive with one another.

The technical device that makes *According to Hoyle* so striking is that, though the various scenes concern the same group of characters in the same room, it hops back and forth in time. Sure, Pinter moved to and fro in time (though changing place) in *Betrayal*; and Stoppard, in *Arcadia*, bounces between 19th and 20th centuries while keeping the action in the same room. But the time-hopping in *According to Hoyle* acquires, for us and probably for more than one of the characters, a particular nervous intensity.

The earliest scene is only about two years before the last. The characters often do not change in appearance at all. We cannot at first figure just when each scene is occurring. But then – as we do, and as we realise what has occurred – the earlier scenes start to acquire the jagged force of disturbing shards of memory.

The action occurs in Chris's flat; and the play begins, ends, and keeps reverting to the last evening on which he is joined there by three habitual poker-playing chums. He is getting married, he has sold the flat, and he is packing his things. This will be their last game in there. But he had shared the flat with another of their poker-playing chums, his old schoolmate Micky, who six months ago committed suicide. And the play shows us Micky, especially on the evening before his suicide. We start to see the ways in which Micky feels a failure, not least in sexual identity.

According to Hoyle is not, mind you, just about Micky and his aftermath. It is about deception, lying, and – above all – bluffing, and about the various talents for deceit (self-deceit too) that each of these characters exhibits. This is a highly interesting theme, and that there is very little poker *per se* is interesting, too; most of the deception, lies and bluffing concerns the private lives of these characters. But, as *According to Hoyle* proceeds, it bites off more than it chooses to chew. To turn one of the characters into a cross-dresser near the end of the play feels like a mere theatrical effect. And when Chris, describing his wife-to-be, says "She's lovely, she's intelligent – and she's got a great arse… though not necessarily in that order," it adds an ambiguous dash of sexism to Chris that does not, at this stage in the play, ring true.

Eventually, *According to Hoyle* ties up most of its threads. Yet it feels a more audacious play in its earlier scenes, when we do not know where the play is heading, but we feel the buried despair in each of these men and the big bluff in each of their social demeanours. Curiously, the more its plot coheres, the more neatly conventional the play feels. But almost every aspect of Robin Lefèvre's staging makes the play absolutely fresh and absorbing to watch. Nick Dunning's achievement as Chris, the central and most decent and yet most inscrutable character, is very fine, with the possible exception of his bluff handling of the tricky "great arse" line. None of the characters are simple, and Robert Glenister as Micky, Jonathan Coy as Clive, and Trevor Cooper as Kevin all make their characters persuasively multi-faceted. Men, men, men… Who would give them house room?

At the Hampstead Theatre, NW3.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Koninklijk Concertgebouworkest: with conductor Valery Gergiev and flutist Jacques Zoon perform Gubaidulina's "Flute Concerto" and Shostakovich's "Symphony No.11"; 8.15pm; Dec 15, 16

■ ANTWERP

CONCERT
De Singel Tel: 32-3-2483800
● Symfonisch Orkest van de Vlaamse Opera: with conductor Stefan Soltesz and soprano Penelope Walmsley-Clark perform works by R. Schumann, Berg and Brahms; 8pm; Dec 16

■ BARCELONA

CONCERT
Palau de la Música Catalana
Tel: 34-3-2681000
● Orquestra Simfònica de Barcelona i Nacional de Catalunya: with conductor Edmon Colomer perform works by De Falla, Pedrell and Stravinsky; 9pm; Dec 15, 16 (7pm), 17 (11am)

■ BERLIN

CONCERT
Konzerthaus
Tel: 49-30-203092100/01
● Mozart-Trio Berlin: with tenor Matthias Bleidorn and pianist Christina Bleidorn perform works by Mozart and Haydn; 7.30pm; Dec 15
Philharmonie & Kammermusiksaal
Tel: 49-30-254880
● Susanne Schemann and Denis Schemann: the pianists perform works by Mozart, Schubert, Dvorák and Brahms; 8pm; Dec 14
DANCE
Deutsche Oper Berlin
Tel: 49-30-3438401
● Die Schneekönigin: a choreography by Ray Barra to music by Glazunov, performed by the Ballett of the Deutsche Oper Berlin; 7pm; Dec 14

■ BONN

OPERA & OPERETTA
Oper der Stadt Bonn
Tel: 49-228-7281
● La Traviata: by Verdi. Conducted by Plácido Domingo and performed by the Oper der Stadt Bonn. Soloists include Veronica Villarroel, Ramon Vargas and Carlos Alvarez; 7pm; Dec 16

■ COLOGNE

OPERA & OPERETTA
Opernhaus Tel: 49-221-2218400
● La Damnation de Faust: by Berlioz. Conducted by David Levi and performed by the Oper Köln. Soloists include Béatrice Uria-Monzon, David Kuebler, Philippe Rouillon and Ulrich Hielscher; 7.30pm; Dec 15

■ FRANKFURT

CONCERT
Jahrhunderthalle Hoechst
Tel: 49-69-3601240
● Wiener Sängerknaben: perform Christmas songs; 8pm; Dec 15, 16

■ HAMBURG

OPERA & OPERETTA
Hamburgische Staatsoper
Tel: 49-40-351721
● Die Zauberflöte: by Mozart. Conducted by Gregor Bühl and performed by the Hamburg Oper. Soloists include Harald Stamm, Rainer Trost, Hellen Kwon and Gabriele Rossmanith; 7pm; Dec 14

■ LEIPZIG

OPERA & OPERETTA
Oper Leipzig Tel: 49-341-1261261
● Die Zauberflöte: by Mozart. Conducted by Rohde and performed by the Oper Leipzig and the Gewandhausorchester; 7.30pm; Dec 14

■ LONDON

CONCERT
Queen Elizabeth Hall
Tel: 44-171-9604242
● Richard Goode: the pianist performs sonatas by Beethoven; 7.45pm; Dec 16
St. John's, Smith Square
Tel: 44-171-2221061
● Choir and Orchestra of St. John's, Smith Square: with conductor John Lubbock, soprano Irene Drummond, mezzo-soprano Christine Cairns, tenor Julian Gavin and baritone William Dazeley perform works by J.S. Bach, Mendelssohn, Brahms and Wagner; 7.30pm; Dec 14
St. Martin-in-the-Fields
Tel: 44-171-8300089
● The Festive Orchestra of London: with conductor Martin Feinstein perform works by Corelli, J.S. Bach, Vivaldi and Handel, and Christmas carols; 7.30pm; Dec 15
THEATRE
Cottesloe Theatre
Tel: 44-171-9282252
● Richard II: by Shakespeare. Directed by Deborah Warner, starring Fiona Shaw and David Threlfall; 7pm; Dec 15, 16 (also 1.30pm)

■ LYON

CONCERT
Auditorium Tel: 33-78 95 95 95
● Orchestre National de Lyon: with conductor Lü Jia, the Choeurs de Lyon-Bernard Tétu, soprano Susan Anthony, mezzo-soprano Nancy Maultsby, tenor Roberto Sacca and baritone Till Fechner perform works by Mozart, Wagner and Bruckner; 8.30pm; Dec 14, 16 (6pm)

■ MUNICH

OPERA & OPERETTA
Nationaltheater
Tel: 49-89-21851920
● Anna Bolena: by Donizetti. Conducted by Fabio Luisi and performed by the Bayerische Staatsoper. Soloists include Roberto Scandiuzzi, Mariana Nicolesco, Vesselina Kasarova and Gerhard Auer; 7pm; Dec 14, 18

■ NEW YORK

EXHIBITION
The Metropolitan Museum of Art
Tel: 1-212-879-5500
● Medieval and Early Renaissance Tapestries: this inaugural installation in the gallery at the entrance of the Antonio Ratti Textile Center presents six tapestries of the medieval and early Renaissance periods featuring devotional subjects; from Dec 14 to Apr 30
Whitney Museum of American Art
Tel: 1-212-570-3633
● Collection in Context. Joseph Cornell: Cosmic Travels: exhibition focusing on Cornell's preoccupation with 19th-century astronomy, celestial navigation, imaginary voyages, and the passage of time, which is revealed through his box tableaux; from Dec 14 to Mar 10

■ PARIS

CONCERT
Cité de la Musique
Tel: 33-1 44 84 45 45
● The Chamber Orchestra of Europe: with conductor Herbert Blomstedt and violinist Marieke Blankestijn perform Haydn's "Symphony No.67" and "Violin Concerto in G", and Brahms' "Symphony No.4"; 8pm; Dec 14
Salle Pleyel Tel: 33-1 45 61 53 00
● Orchestre Philharmonique de Radio France: with conductor Marek Janowski and violinist Christian Tetzlaff perform Schubert's "Rosamunde", Mendelssohn's "Violin Concerto No.2" and Brahms' "Symphony No.2"; 8pm; Dec 15

■ ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Messiah: by Handel. Performed by The Academy of Ancient Music and the New College Choir, Oxford, conducted by Christopher Hogwood. Soloists include soprano Emma Kirkby, mezzo-soprano Catherine Robbin, tenor Laurence Dale and bass David Thomas; 8.45pm; Dec 15

■ STOCKHOLM

CONCERT
Konserthuset Tel: 46-8-7860200
● Filharmonikerna: with conductor Paavo Järvi and flutist Andreas Alin perform Haydn's "Symphony No.101", Mozart's "Flute Concerto No.2" and Shostakovich's "Symphony No.5"; 7.30pm; Dec 14

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Wiener Symphoniker: with conductor Marcello Viotti perform works by Brahms and Beethoven; 7.30pm; Dec 16, 17

■ WASHINGTON

CONCERT
Concert Hall Tel: 1-202-467 4600
● Messiah: by Handel. Performed by the National Symphony Orchestra with conductor Peter Bay and the University of Maryland Chorus; 8.30pm; Dec 15, 16, 17 (1pm), 18

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Financial Times Business Tonight

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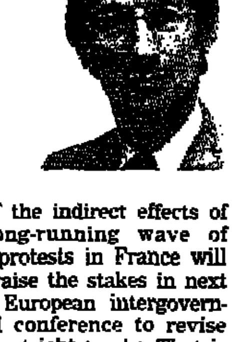
Financial Times Business Tonight



Ian Davidson

The price to be paid

France may have to sacrifice national powers in some areas in order to maintain its partnership with Germany

One of the indirect effects of the long-running wave of street protests in France will be to raise the stakes in next year's European intergovernmental conference to revise the Maastricht treaty. That is what seemed to emerge from last week's Franco-German summit in Baden-Baden; and it is likely to crystallise at the European Union summit in Madrid at the end of this week.

It is too early to tell on what terms the French strikes will be settled, or when. The inference most people will draw from the prime minister's offer of talks with the unions is that it is tantamount to an offer to make serious concessions on the principles of the reform of the social security system. From there it is only a short step to assume that the French government's ability to meet the membership criteria for economic and monetary union in time for 1999 could be fatally undermined.

If this were to be the whole story, Eurosceptics throughout the EU, in France and even more in the UK, would chortle with glee at the turn of events. For if France fails to meet the Maastricht criteria for membership of Emu, it is widely admitted that monetary union will not happen.

The reason is simple: Emu is not a politically neutral, technocratic, monetary trick, but a large step in the political and economic integration of Europe; and from the beginning that integration has been built around the partnership of France and Germany. In theory, the Germans could form a monetary union with just the Netherlands and Austria, or even just with Luxembourg. But they would not want to – and there would simply be no point in terms of European integration.

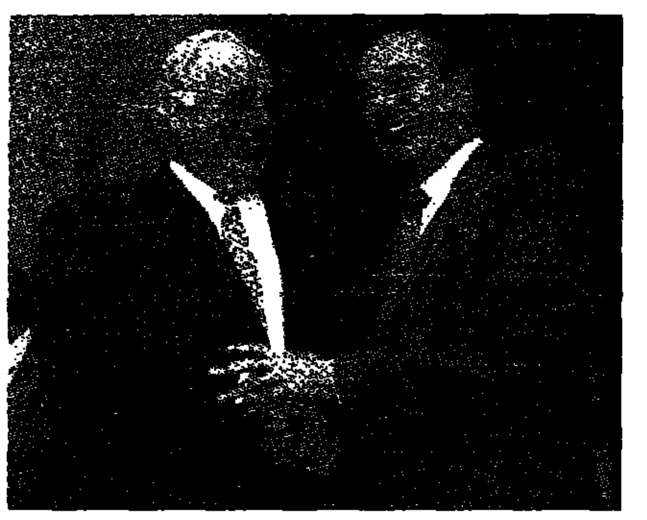
Even a delay in starting Emu could be fatal to the entire project. The Maastricht timetable has concentrated minds wonderfully, but if it were to be renegotiated, who would believe any new deadline – or be constrained by it?

And that is not all. If the Emu project were to fall apart, the ramifications would spread far beyond the apparently self-contained question of a single currency. The Maastricht treaty represented the most ambitious attempt at deeper integration since the signature of the original Rome treaty in 1957. If Maastricht were to founder, the whole question of the future of European integration would be in doubt. In short, the EU would face a shattering crisis of identity and direction.

Because so much now hangs on the successful launch of the single currency according to schedule in 1999, French and German leaders are desperate to reassure the world that it will happen. At their meeting in Baden-Baden, Chancellor Helmut Kohl and President Jacques Chirac expressed complete confidence that France would meet the Maastricht criteria on time. But they cannot have any serious foundation for such confidence in the middle of the French strikes, just when the government is offering negotiations – that is, concessions – to the strikers. Some observers tell us that the essence of the government's budget strategy is still on track; but these are early days in the game of negotiation.

On the other hand, it is probably true that Mr Chirac has now rediscovered the old truth, that France has no strategic alternative but to cling to its partnership with Germany. The idea of "another policy" to that agreed at Maastricht, with which he seemed to flirt during his election campaign, is a dangerous delusion. The paradox is that monetary union was for many years primarily a French demand, while the Germans were sceptical or even reluctant. Today both countries are ineluctably hooked, by treaty and by the momentum of events, to the commitment to monetary union; but only France is uncertain whether it will be able to meet the convergence criteria.

The French government claims its ambitious budget-cutting plans will meet the rules for joining the single currency. But getting there was always going to be difficult, and the strikes can only make it more so. In any case, even if the strikes are settled on what appear to be reasonable terms, the underlying uncertainty cannot finally be resolved for at least two years.



EPA

Confident about single currency: Kohl (left) and Chirac

since the European Union will not decide which countries qualify for the single currency until early 1998.

Between now and then, there is the intergovernmental conference. Germany and several other member states are anxious that the conference should lead to more integration in matters such as foreign policy, security, defence, police and immigration, where joint policies at present need the unanimous approval of member states.

But Mr Chirac, in his pose as a traditional Gaullist, has been reluctant to sacrifice national powers in these areas, which might be seen as diluting the sovereignty of the nation state. The essential question for the French is whether they can afford to risk alienating the Germans on these sovereignty issues, before they are sure they can make the grade on the single currency.

The Baden-Baden meeting suggests they may have decided to bite the bullet. In a letter to fellow leaders, Mr Kohl and Mr Chirac agreed to call for more integration on foreign and security policy; more co-operation on asylum, immigration, crime, terrorism and drugs; and more majority voting in the Council of Ministers so that it is harder for individual member states to block changes.

They also called for a change in the treaty, to allow groups of willing member states to go ahead in new areas of integration, without being held up by the unwilling. The implication of such a move for the UK, Europe's odd man out in opposing all new integration, needs no underlining.

Just what the Franco-German declaration really means will be determined only in negotiation. But it seems quite likely that France will have to make a bigger political payment in Europe, to compensate for the debacle of its mishandling of social affairs at home.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Wrong target for the animal welfare bullies

From Mr Royce Frith.

Sir, The International Fund for Animal Welfare has issued a bullying demand to Canadians and Britons alike: Canada must not harvest a single harp seal in the Atlantic, no matter how many fish the huge and growing herd of such seals devour.

And to make sure Canada does what it says, it is pressing British supermarkets not to stock tinned salmon that its customers favour. Why? Because the salmon comes from Canada ... albeit, the other side of Canada.

The IFAW is trying to put pressure on the supermarkets not to allow Britons to choose what to buy. The group's campaign ignores the facts, while the real problem with harp seals in the North Atlantic goes on – a massive, increasing herd with an appetite which is disastrous for the regeneration of depleted cod and other white fish stocks.

The IFAW repeats old lies because it cannot afford to face the scientific facts. It argues, for example, that the huge seal herd has a negligible effect on fish population.

Here are the scientific facts addressed at a recent international seal management forum at St John's, Newfoundland:

- The population of harp seals is not endangered – it has doubled to nearly 5m in 15 years. Harp seals have no natural predators.
- The herd devoured 6.9m tonnes of cod and other fish last year – each seal consumes about 1.4 tonnes of fish a year.
- Cod stocks are at an all-time low, despite fishing boats being tied up for more than four years.
- If the herd carries on unchecked, there will be no fish left for anyone. And that includes the seals.

Canada's response is to restore the balance of nature through seal herd management so fish and seals both flourish. It is not "senseless" and it is not a "slaughter". It is a sensible, sustainable approach, supported by respected environmental organisations.

Selecting unlinked targets for protests in this way is a threat which ought not to go unchallenged by the civilised trading world.

Royce Frith,
high commissioner,
Canadian High Commission,
Macdonald House,
1 Grosvenor Square,
London W1X 0AB, UK

Pragmatic position on EU works councils

From Graham R. Mackenzie.

Sir, Daniel Vulliamy (Letters, December 11) will be reassured that the Engineering Employers Federation is the same body reported ("Engineers back works councils", December 7) as in 1994 complaining about the enormous cost burden that European Union works councils will impose on companies in Europe.

The EEF's position has not changed. We undertook extensive lobbying against the directive, but it was adopted by all member states of the EU, except for the UK, in September 1994. The directive comes into force in September 1996. EEF expects our member companies will obey the law, and are now mounting a series of 15 one-day conferences alerting companies to the implications of the directive and options available.

One option is to reach a voluntary agreement in advance of the directive coming into force. Companies need to consider that option now as it will disappear next September. The decision a company takes must be based on solid business grounds and EEF will not prescribe a course of action on how companies should respond.

It will not surprise Mr Vulliamy to know that our previous "complaint" about the "enormous cost burden of European works councils" has been proved right. One member that has already held a EWC meeting reported that translation costs were £25,000.

Our position is pragmatic. Companies cannot ignore law, but need to find workable and effective solutions.

Graham Mackenzie,
director-general, EEF,
Broadway House,
Tothill Street,
London SW1H 9NQ, UK

Generous view of West Lothian issue

From John Rosselli.

Sir, The December 11 leader raises the "West Lothian question" – "the discrepancy between the rights of Scottish MPs to vote on all matters at Westminster, and that of other MPs, who would be unable to on many Scottish issues" – as if it were a profound problem.

Within Spain and Italy, the regions of Catalonia, the Basque country, Sicily, Sardinia and the Val d'Aosta enjoy greater legislative autonomy than other regions, but their deputies still sit and vote in the national parliament. Here the "West Lothian question" has been solved by a generosity which is also good policy. As the historian Eric Hobsbawm notes: "It is significant that the states defeated in the second world war, on which a high degree of centralisation was imposed – presumably in reaction against fascist centralisation [ex-Franco Spain could be included here] – lack most of the separatist movements of the rest of western Europe, though on paper Bavaria and Sicily are at least as obvious breeding grounds for such movements as Scotland ..."

John Rosselli,
98 Sturton Street,
Cambridge CB12DA, UK

Spending power finds a frontier in Portugal

From Mr Norman Woodhouse.

Sir, Flying from London to Lisbon at short notice to speak at a conference of communicators, I thought it prudent to have some standby Portuguese money, for the odd taxi fare.

Travelex UK at Heathrow sold me 6,000 escudos for £29.53 (£27.03 at an exchange rate of Esc222 to the £, plus £2.50 commission) on November 22.

In fact my perfect Portuguese hosts met me at Lisbon airport and returned me there the next morning.

Back home, with no other visit to Portugal planned and Christmas looming, I called at Thomas Cook where my pristine notes for 6,000 escudos were bought for £20.99 (£24.49 at Es245 to the £1, plus £3.50 commission) on December 9.

So my modest £29.53 outlay had "devalued" inside the European Union by £8.54 or 28.92 per cent – before buying a drop of Christmas spirit.

Roll on Emu! Do we have to wait even as long as 1999 for a common currency to safeguard our spending power and to end extravagant cross-border exchange transactions?

Norman Woodhouse,
chief executive,
Direct Communications,
10 Palmersfield Road,
Banstead,
Surrey SM7 2LD, UK

Forecasts get warmer

From Peter Doerell.

Sir, Sir John Houghton ("'People to blame' for global warming", December 1) is well advised to call the newest predictions of the intergovernmental panel on climate change "very cautious conclusions". IPCC's gloomy forecasts are now being cut to +2°C in the year 2010. In terms of climatology, +2°C more than today would not be a disaster but called a "climate optimum"!

So let's forget the rubbish about "global warming" and let's enjoy hopefully, before all in Britain, a bit more warmth.

Peter Doerell,
Rue Capouillet 19/21,
B-1060 Brussels, Belgium

A predictable outcome

From Mr Peter Cave.

Sir, If Stephen Hawking has shown how intrinsically unpredictable the universe is ("Physics superstar with a popular gift", Weekend FT, December 9/10), I wonder how I am able correctly to predict that: the FT will receive this letter; the government will declare how well it is governing; agricultural ministers will assure us that all is well down at the farm; money will not grow on trees; Britain, champion of human rights, will supply more weapons to repressive regimes; cable television will continue to decorate streets with tarmac tapestry; and my geraniums will neither turn into glass pumpkins nor try talking to me. I also wonder how Hawking is able to predict that there will be no future evidence and reasoning showing the universe to be predictable.

Peter Cave,
17 The Mount,
Hampstead,
London NW3 6SZ, UK

A price wine

From Mr J.E. Russell.

Sir, Jancis Robinson should surely know why British wine sells poorly ("Missing ingredient", Weekend FT December 9/10).

When an excellent bottle from New Zealand or Chile can be brought halfway round the world and sold for £4 or £5, it seems a rip-off to pay the same for one that has come 100 miles.

J.E. Russell,
Drumwalls,
Gatehouse of Fleet,
DG7 2DE, UK

Technology · Robert Rice

Legal advice on the screen

An Australian law firm is pioneering IT programs designed for its clients' use

In 1992 the steel division of Broken Hill Proprietary, the Australian resources company, presented its Sydney-based lawyers, Blake Dawson Waldron, with an unusual request.

Concerned about the impact of tough new environmental penalties, BHP asked Blakes to produce computerised summaries of all 156 Australian environmental acts for use by its managers in the field. the

The project turned the firm's information technology from what had been primarily an internal service relating to data retrieval and document assembly into one for clients.

The project was led by partner Ms Elizabeth Broderick, head of the firm's legal technology group. Using data compression technology, the summaries and the software to access them by use of key-words were put on to a 3½-inch disc.

The idea was that BHP's managers would be able to access the summaries through their PCs and identify problems needing the attention of a specialist environmental lawyer at an early stage.

"Traditionally legal advice is given to the company's in-house lawyers who then pass it down the line," says Ms Broderick. "This product delivers advice direct to the site manager."

If asbestos is discovered on several sites and the manager wants to know the requirements for disposing of it in Western Australia, the word "asbestos" is typed in, followed by Western Australia, and the relevant regulations are revealed.

Blakes has sold the environmental summaries to 15 other clients, including ICI and Unilever Australia. They are updated every three months and are now available to clients online.

Other packages include a summary of Australia's 245 occupational health and safety laws, and Ms Broderick's team has produced other electronic products including compliance programs for the insurance industry and one for the pensions industry.

According to Mr Richard Susskind, IT consultant to Lord Woolf's review of the English civil justice system and specialist adviser to Masons, the City solicitors, Blakes represents a face of the future.

> The important question for law firms is whether they want to use information technology simply to automate existing processes or to innovate

Mr Susskind predicts that the primary function of most lawyers will shift from being specialist advisers to their clients on a one-to-one basis to being providers of generic guidance to the market as a whole. The driving force behind this shift is the increasingly competitive nature of the legal services market.

Mr Susskind argues that, because one-to-one consultation is too costly and time consuming, businesses are reluctant to use lawyers until it is clear they need legal help. As a result there is a vast "latent legal market" which lawyers can tap by using technology to package and sell their legal expertise, he says.

"For law firms such a move should provide many more business opportunities and for clients earlier and more cost-effective legal input to their business affairs," he says.

The technologies to achieve this shift in role are already here. The important question for law firms, therefore, is whether they want to use information technology simply to automate existing processes or to innovate.

Mr Susskind suspects that in the short term few law firms will embrace the idea of providing generic legal information for the market as a whole. Most take the view that the limit of clients' expectations is to be able to communicate electronically with their lawyers.

However, once everyone is connected to the Internet and able to access information posted on it by law firms such as Blakes, they may be forced to follow suit or begin to lose market share.

Firms such as Blakes will not stand still while others catch up. Its pensions industry program is the first product to emerge from a new joint venture agreement signed recently between Blakes and the Australian subsidiary of the US law and tax publisher, Commerce Clearing House.

Available initially on CD-Rom, the service will be distributed online through the Internet in 1997. Users will then be able to update the product simply by dialling into Blakes' home page and reconciling their database with Blakes.

This is Blakes' most sophisticated product to date, says Ms Broderick, and for the first time the firm is looking to extend the product to cover overseas legislation.

Ms Broderick's team has also produced a multimedia trade practices training program designed to teach managers about competition and restrictive trade practices issues. And there are more products in the pipeline.

Ms Broderick says: "This is definitely the future. We're living in a more and more highly regulated society and the cost of compliance for major corporates is astronomical. If they can buy a product at one-fifteenth of its development cost, it must be an enormous advantage to them, particularly if they don't have to go to their lawyers for advice every time regulations change."

FINANCIAL TIMES

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Wednesday December 13 1995

To cut, or not to cut

A majority of City economists believes that Mr Kenneth Clarke, the chancellor of exchequer, will cut the base rate of interest from 6¾ per cent at today's monthly meeting with the governor of the Bank of England, whether or not Mr Eddie George concurs. If they are proved correct, Mr Clarke will, no doubt, be applauded by his party, by business and by many of those economists. But applause by itself would not be enough to make a wrong decision right.

The government's target is, say the Treasury and the Bank of England, for inflation to be just a little bit below 2½ per cent. Inevitably, there will be swings about that level, as shocks and cyclical fluctuations push inflation up or down, but it should almost always fall between 1 and 4 per cent. Since base rate moves are in discrete jumps, recommendations to change them depend on whether inflation two years hence is expected, on the balance of probabilities, to be closer to 2½ per cent at the current base rate or a different one.

This interpretation is somewhat different from what was widely understood by the chancellor's statement, last June, that the aim would "be to continue to achieve underlying inflation ... of 2½ per cent or less". Many then concluded that 2½ per cent was to be a ceiling when setting policy. The ambiguity was avoidable – and should have been avoided.

Two questions arise: is this a sensible guide for policy? Should interest rates be changed today?

The answer to the first is that the target is defensible, though perhaps on the high side. It is not only defensible as an aim for inflation, but because it is an aim for inflation. Higher inflation would bring no long-term benefit to the economy. But it is socially and politically corrosive for governments to inflict periodic bouts of inflation in a disreputable attempt to purchase short-term electoral advantage or, worse, secure covert redistributions of wealth.

The answer to the second is that the case for cutting the base rate has strengthened over the last month. If the Bank of England were approaching the question without bias and not – as many of its critics assume it does – with deliberate pessimism, it could reasonably recommend a cut.

In favour of such a move are the weakness of the continental economies; the sharp rise in measured stocks; the meagre 0.3 per cent expansion of non-oil GDP in the third quarter and the stagnation in retail sales. Also in favour are the 1.4 per cent annualised increase in retail prices (less mortgage interest) over the past six months; and the persistently low rate of underlying earnings inflation, at only 3¼ per cent in September. Against, however, are the record low reached only last month by the trade-weighted exchange-rate, rising pay settlements and growth of broad money (M4) at an annualised rate of 8.9 per cent over the past six months.

On balance, the ayes may have it, just. But there is a reasonable case for waiting a month. There is a far more compelling one still for the chancellor not to override the governor once again, particularly in a downward direction.

If the chancellor keeps on doing this, he would be saying either that he judges the Bank to be incompetent, or that he believes he is a lucky gambler, or that he intends to ignore his self-imposed target. If the first, he should appoint another governor; if the second, he is doomed to disappointment; if the third, he is just another political trickster.

An EU challenge

The report published yesterday by the Competitiveness Advisory Group is unlikely to get the attention it deserves at this weekend's Summit of European Union heads of government in Madrid. Few will want to tarry long over a mundane issue like the deregulation of European infrastructure, when they could be pondering monetary union, or enlargement.

However, many would say that there was no better test of the EU's capacity to achieve its long-term objectives than the challenges posed by the report. When the group was set up a year ago by the EU heads of government its mandate was fuzzy – to monitor the so-called competitiveness "gap" between Europe and Japan and the US. Yet the latest report is practical – and, just as welcome, – non-ideological.

There is the odd, suspect proposal, such as the idea of setting up a technology foresight programme for medium-sized enterprises. But the three central points are timely and too often overlooked at lofty occasions, like summits.

The first, and most obvious point is that completion of the internal market ought to remain an "absolute priority" for the EU, regardless of what happens on Emu, or enlargement. Second, a single market means little if it does not mean a unified market in core industries, such as transportation and utilities. Third, that liberalisation and the introduction of greater competition in such sectors will need some rethinking of the functions of the state.

Progress in these sectors has been the slowest of the entire single market programme. No single deregulation or privatisation model applies throughout Europe, but "country-specific concerns" must not be an excuse for doing nothing, since, as the report notes, "introducing competitive forces in the sector of public utilities has proved to be a win-win situation for the state, for industry and for the consumer."

Despite much foot-dragging at a European level, the report notes that individual member countries have been moving towards efficiency-enhancing reforms, including establishment of partnerships between the private and public sectors. What is lacking so far are pan-European efforts to exploit these developments at the level of the single market, not least by allowing operators in one country to provide services in other member states. However great the temptation for the summiteers to dine on grander issues – such as what to call the European currency – they must not forget the EU's bread and butter.

Turkish customs

The European parliament must today make one of the most important decisions in its history: whether to ratify the EU's customs union with Turkey, due to come into force on January 1.

The commercial advantages for European industry are obvious enough: it will gain free access to a rapidly growing market of 60m people in a country right on its doorstep, which is already the EU's 10th biggest trading partner. European consumers will benefit from the removal of quotas on Turkey's highly competitive textiles and garments. With that significant exception, Turkish producers will reap little immediate benefit, since EU duties on Turkish industrial goods and processed foods were abolished 22 years ago. The customs union does not affect agricultural products, nor does it involve free circulation of labour.

The short-term effects on much of the Turkish economy will be quite painful. Only in a few years will it feel the full benefits of stiffer competition and a more secure investment climate. Partly for that reason Tansu Çiller, the Turkish prime minister, has called a general election for December 24: she hopes to reap the political kudos of achieving the customs union before disillusionment and anger set in. But her choice of date was also intended to increase the pressure on MEPs, who have been told that by rebuffing Turkey they would boost the electoral chances of the pro-Islamic Refah (Welfare) party.

MEPs rightly resent such pressure. The effect of their decision on the election result is impossible to gauge, and should not be the main consideration. What they should consider is the long-term effect on Turkey's social development and strategic orientation. Next to Russia, Turkey is the most problematic and strategically crucial of the EU's neighbours. Whether it can ever be a full EU member remains uncertain, but everything short of that should be done to keep it as a friend.

The only argument for withholding ratification is that it would look like endorsement of a regime which has burned hundreds of villages and arrested and tortured thousands of people in the course of a vicious civil war against Kurdish nationalists (themselves often equally vicious) in the south-east. But that is a risk which should be taken, not so much in recognition of the half-measures adopted to improve human rights during this year as because the best hope of real improvements lies in the gradual liberalisation of Turkish society. Hopes for that are surely stronger with the customs union than without it.

Little to do with luck

Daniel Bögler explains why Camelot is proving such a profitable venture for the five companies that run it

Britain's National Lottery creates thousands of lucky winners with every draw. But the names that hit the jackpot week after week are rarely mentioned: confectionery giant Cadbury Schweppes, De La Rue, the security printer, electronics group Racal Electronics, computer maker ICL and GTech, the US lottery operator.

Together they own Camelot, the consortium that runs the lottery. Their returns have little to do with luck – the five stand to double their £50m ($77m) investment in 14 months.

The reason for this is that the lottery has been successful beyond ministers' wildest expectations. Ticket sales hit nearly £1.2bn in the first 20 weeks and exceeded Camelot's forecasts by 40 per cent. With Instants scratch cards joining the Saturday night draw, turnover is now running at £5bn a year – a figure the consortium did not expect to reach until year three.

That means more money has been distributed in prizes and to good causes. But more has also stuck with the operator.

Camelot takes only a tiny slice – after covering running costs, its profits amount to less than 1 per cent of turnover. But given high ticket sales, even that thin margin will produce profits of roughly £320m over the seven years to 2001.

And because of the instant success of the lottery, those profits are coming earlier than expected. In September last year, Mr Peter Davis, director-general of Oflot, the government watchdog, wrote to Conservative MPs that he expected Camelot to make a net loss in the early years. Instead, the company declared an after-tax profit of £6.3m for its first 20 weeks to March. In the half-year to September that figure jumped to nearly £24m and it is expected to run at about £50m a year for the foreseeable future.

Even those numbers do not reflect the true profitability of the venture. As sales soared, Camelot decided to write off £30m of start-up costs against first-year profits, rather than spread them over three years. If it had stuck to its original accounting policy, the first-year profits would have been closer to £25m than £6m (although the extra depreciation would have reduced the recent interim figures by £8m).

A better pointer to Camelot's success is its cash performance. The company arranged a £100m borrowing facility to supplement the capital injected by its owners. Despite the rapid roll-out of 25,000 terminals and a huge computer system, however, Camelot made only passing use of its credit lines. By March it was sitting on a cash pile of £63m.

This had jumped to £110m by September, allowing the group to declare its first dividend, once again two years ahead of schedule. In the first half of the present financial year it announced a £9.5m payout to its five shareholders – 40 per cent of after-tax profits and the maximum allowed under its licence.

This is leading to abnormally high returns for the five consortium members. If Camelot merely repeats its first-half performance, it will declare after-tax profits of £47m in the year to March 1996, virtually equivalent to the £50m investment, or a 100 per cent payback.

Because of differing accounting policies, some of the companies are booking even higher individual returns. Racal, for example, has recorded almost £17m of Camelot's profits in its own figures in a year, more than exceeding the £11.25m it invested up-front. Like the other four principal shareholders it has also received an interim dividend of £2m – an annualised return of close to 40 per cent. De La Rue and Cadbury Schweppes have taken smaller amounts into profit, but have been paid the same dividend.

Nor does their involvement end there. One of the strengths of the Camelot bid was that the members could each contribute to the running of the lottery. ICL and Racal are supplying computers and lottery terminals while De La Rue is printing tickets and scratch cards. The five all have arm's-length contracts with Camelot to supply goods and services worth £90m in the first 20 weeks – and the figure is expected to rise this year.

De La Rue, for example, admits that its printing contract makes about £1m of profits on £20m of turnover. Mr Jeremy Marshall, its chief executive, is unapologetic about the returns from the printing group's investment: "After considerable hesitation over the risk involved before we set sail, we are absolutely delighted with the result.

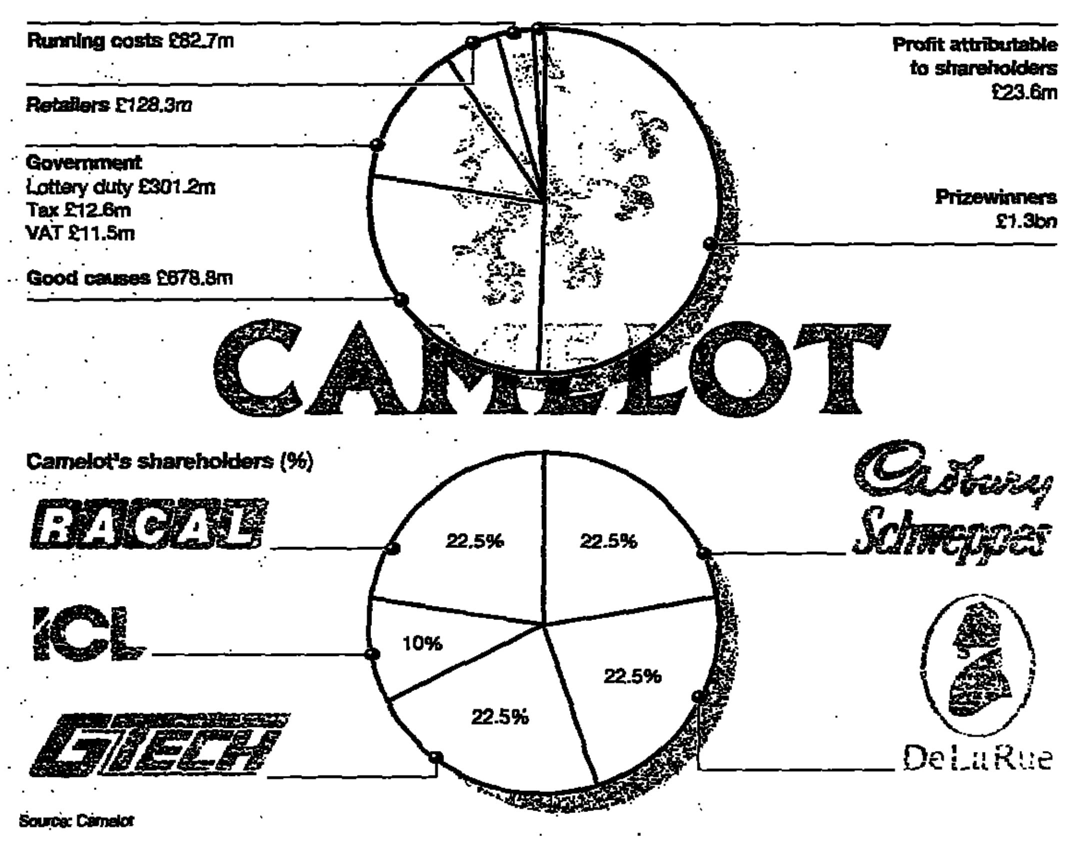
"However, we are unhappy about the way Camelot has been criticised. Apparently, in Britain success is against the rules."

There were undoubtedly risks to the consortium members during the start-up phase. Camelot was subject to a fine of £1m a day if it had missed its November 1994 deadline for launching the lottery. And it estimates that the five partners could have lost £200m in equity investment and bank guarantees if anything had gone wrong.

Public opinion might demand that the regulator should intervene and claw back some of the unexpectedly high profits the consortium is making, now that the period of maximum risk is over. But Camelot's 1 per cent take cannot be altered under its licence terms. Britain's lottery operator is secure until the licence comes up for renewal in 2001.

Camelot: on a winning streak

Breakdown of sales for 24 weeks to September 16 1995 (Total = £2.5bn)



Source: Camelot

Peter Davis of Oflot: friends say he will 'tough out' the latest problem

The overseer's miserable lot

John Kampfner and **Alison Smith** on the predicament of Peter Davis, the national lottery regulator

The lot of a regulator is rarely a happy one, but that of Mr Peter Davis, the man in charge of the national lottery, is fast becoming downright miserable.

Hours before allegations by Mr Richard Branson, the Virgin chief, against a member of the winning lottery consortium were broadcast on television, Mr Davis admitted to the House of Commons's public accounts committee that he took up the offer of free flights from GTech, the company at the centre of the claims.

He was promptly accused by Mr Alan Williams, the Labour MP and one of the wiliest committee members, of being "an innocent abroad".

After Winchester and Oxford Mr Davis, 53, joined Price Waterhouse, the accountancy firm, in 1963, staying with it until 1980, and becoming one of its youngest partners in 1974. From there he left to become executive deputy chairman of Harris Queensway, leaving in 1987, a couple of years before the retail group's difficulties became apparent.

He has since described his roles there – and later at Sturge Holdings, the insurance underwriter, where he was group finance director and deputy chairman – in terms of acting as a "bridge", implementing the ideas of flamboyant characters such as Sir Philip Harris and Mr David Coleridge, the Sturge chairman.

Variously described as conscientious, pleasant and bright, Mr Davis was appointed to the £80,000 post of director general of Oflot in September 1993 at a time when nobody knew how successful the lottery would become.

In the event, the success of the Camelot consortium was almost embarrassing. It went from strength to strength after beating seven other contenders for the bid, including Mr Branson's. Its public image was of a super-confident and slick machine from which its constituent members reaped large profits.

Mr Davis has always insisted that the lottery must be beyond reproach. The rejection of Mr Branson's bid, he emphasised to MPs, was taken purely on its commercial merits. Since then, Mr Davis's friends believe, Mr Branson has mounted what is close to becoming a vendetta.

During his four-hour grilling by MPs, Mr Davis was challenged to deny that he had bent over backwards to accommodate Camelot's wishes. They repeatedly probed him on the rules giving Camelot effective right of veto over the award of instant scratch card licences.

He answered efficiently, if somewhat legalistically, but often appeared awkward. Those who know him concede that he is not "streetwise" and is perhaps suffering now from the lack of media exposure in his previous jobs.

As the public accounts committee pointed out, the gambling industry is not known for its soft touch. MPs wanted to know how firmly he had looked into the past of the 1,300 individuals associated with the bids. Mr Davis gave a cagey response, merely saying that up to six people had been advised that their past convictions ruled them out of any involvement.

MPs also wanted to know whether he should have been tougher on Camelot, after newspapers revealed the identity of the first jackpot winner, who had sought to remain anonymous.

As Labour sought yesterday to capitalise on the embarrassment, Mr Davis's friends from 30 years in the City rallied to his support.

Mr Coleridge describes his former finance director as "very upright and extremely good".

"When he was appointed to Oflot I regarded him as well-suited to it. He has a sharp regulatory mind. I hold to that view, even though it was inevitable that some people would start screaming."

His friends seem confident that he will "tough out" his problems.

· OBSERVER ·

Hungary cats get cream

■ Just as well Hungary stands to collect more than Ft300bn ($2.2bn) in privatisation revenues this year; APV, its privatisation agency, dishes out cash with gay abandon. Eyebrows were raised when officials involved in the recent electricity sector privatisation treated themselves to a stay in the plush Savoy hotel when visiting London.

Now APV has come up with the bright idea of appointing six roving privatisation gurus. Their task, if the scheme gets the go-ahead, would be to tout state companies to foreign countries. Hhmm – isn't that what Hungary's commercial attachés are paid to do? It's also a bit late. Hungary started privatising six years ago and there's not that much left to sell.

But it would be excellent news for the lucky six, mainly former ambassadors or senior government officials. They would receive a monthly salary equivalent to more than $1,000, three times Hungary's average, plus a further $1,100 in monthly expenses. Not bad for what's officially termed a part time job.

Paper tiger

■ It should have been Jean-Francois Rischard's finest hour. The man from the World Bank had been summoned by the Prince of Wales's business leaders forum to explain his organisation at the Prince's St James' Palace in London yesterday.

The heir to the British throne arrived late – he had been stuck behind the Coldstream Guards band – but he was in time to catch Rischard's spirited plug for the way the much-criticised World Bank helps create prosperous communities in developing nations.

Rischard was feeling ever so slightly pleased with himself until Bunker Roy, a community worker from an Indian village, took to the podium. Roy admitted that the villagers of Tilonia had found Rischard's organisation particularly helpful.

The village education programme involved the extensive use of puppets – all lovingly fashioned in papier mâché from World Bank reports.

Made for walking

■ He may be a scholar and a gentleman, but in 1962 President Nelson Mandela clearly failed to take to heart Montaigne's wise counsel: "One should always have one's boots on and be ready to go." For when he was a temporary resident at the home of Nsilo Swai, a former Tanzanian cabinet minister and UN representative, who died in 1994, Mandela – then an underground activist in the African National Congress – left behind him a pair of army-style brown boots.

He happily renewed their acquaintance yesterday, saying that they reminded him "of the old days when I was a soldier..." I am very honoured to come into physical contact with a part of my past." Vicky Swai, Nsilo Swai's widow, brought them back, having revered them in her household as a symbol for more than 30 years. And very lovingly polished they were too, no doubt.

Saint George

■ Liberians haven't had much to be proud of since ex-President Samuel Doe was tortured to death – on video – by rival warlord Prince Johnson's cronies in 1990. But through the ensuing five year civil war, all Liberians have been ready to praise one man – George Oppong Weah, 29, the footballer extraordinaire and Liberian national hero, nay, patron saint. He's strongly tipped to take the 1995 title as the world's best player.

If he wins, it will be as much for his actions off as on the pitch. Weah, recently transferred from Paris St-Germain to Italian club AC Milan, is one of the world's most patriotic footballers. Using his own money to pay off the Liberian Football Association's debts, he bought team kit and paid bonuses for the national team, and virtually single-handed won Liberia a place at their first ever African championships, in South Africa in January. His next ambition is to take them to the World Cup.

Already crowned Africa's player of the year, and a strong contender also for the European title, Weah has always said his aim is to help, through sport, to bring together Liberia's warring peoples. The postal service has recently issued a full set of postage stamps in his honour. Now world football governing body FIFA could do the long-suffering Liberians a favour. Their leaders might just forget their quarrels, for the duration of the celebrations.

Staff of life

■ What to give the valet for Christmas? It's a topic that has been troubling Observer for some weeks. Thanks to Britain's Ivor Spencer School – which trains butlers – a solution is now at hand.

The school has just surveyed former pupils to see what they have recently been finding in their Christmas stockings. The gifts range from golf lessons, gold watches, to dinner for eight at the restaurant of the butler's choice. If you are still in some doubt you might consider the diamond-studded dog collar on sale at London's upmarket store Harrod's; a snip at £7,500, and it has the merit of reminding the servant in question of who's boss.

The Financial Times

100 years ago

City of Baltimore Breweries

The report of the company, to be submitted at the sixth ordinary general meeting to take place in London on Friday next, states that there was an increase in sales of 3,011 barrels. The depression in America during the past two years has rendered it imperative to increase the financial assistance to the company's customers; this demand and that caused by the capital expenditure in the Mount Brewery, has rendered it necessary, in order not to curtail the finances of the company, to raise £10,200 as a temporary loan.

50 years ago

S Africa and tax relief

Steps to raise South Africa's national income by encouraging private enterprise, and to spread taxation over larger incomes, form a necessary pre-requisite of the Government's post-war policy, Mr Hofmeyr, Finance Minister, declared in Johannesburg. The Government also regarded as essential the maintenance of the Union of South Africa's present strong financial and banking position, he said. In order to carry out its policy of economic betterment, the Government would have to continue to borrow money, but it did not wish to pay high rates of interest.

FINANCIAL TIMES
Wednesday December 13 1995

Push to gain 5% of British light vehicle sector

Isuzu to enter UK truck market in joint venture

By Haig Simonian in London

Isuzu of Japan, the world's biggest truckmaker, will today break decades of self-restraint by announcing its entry into the European commercial vehicles market.

The company, which is 37.5 per cent owned by General Motors of the US, will reveal a joint venture with Lex Service, the UK motor industry group, to distribute UK-assembled light trucks in Britain.

Isuzu's deal marks a further step in the gradual globalisation of the world commercial vehicles industry, which has lagged behind the passenger car business in terms of becoming more international.

But industry analysts are divided about whether the deal marks a new push by Japanese commercial vehicle manufacturers into Europe, or is just a one-off arrangement. Only a few expect Isuzu's initiative to trigger a rush by other manufacturers. Japan's heavy road congestion and narrow city streets mean domestically produced trucks are smaller and lighter than their European equivalents, limiting demand abroad.

Of Japan's truckmakers, only Hino, which assembles vehicles in Ireland, and Nissan, which inherited a truck business when it bought Motor Iberica of Spain, sell in Europe.

The new company, Isuzu Truck (UK), hopes to capture 5 per cent of the UK light truck market, comprising about 20,000 units a year, within the next five years.

The vehicles will be assembled, from kits imported from Japan, by Leyland Trucks, the independent UK truckmaker rescued from the ruins of the collapsed Leyland Daf commercial vehicles group in 1993. Leyland Trucks has considerable spare capacity at its factory in northern England. Although output should reach 10,000 units this year, the plant can build 36,000 trucks a year working on two shifts.

The agreement with Isuzu marks a first success for the company's attempts to persuade other truckmakers to use its capacity to assemble their vehicles on contract. Mr John Gilchrist, chief executive of Leyland Trucks, said the deal would exploit "the tremendous potential of the Leyland assembly plant".

Isuzu Truck (UK) will use a small direct sales force, rather than setting up expensive new dealerships. Maintenance, parts and breakdown services will be provided by other arms of the Lex group.

The new company, which will be 85 per cent owned by Lex with the remainder held by Isuzu and the Itochu group, will only sell 3.5 tonne and 6.2 tonne trucks. Such relatively light vehicles are popular in the UK because they can be driven by users holding a passenger car driver's licence.

Isuzu will gain relatively cheap access to the UK market, while Lex will add a brand to its existing portfolio and improve the turnover of its expanding motor services subsidiaries.

Ford strike ballot soon, Page 7
World commercial vehicles survey, Separate section

Delegates decide on a swift finale for Gatt

By Frances Williams in Geneva

The General Agreement on Tariffs and Trade, otherwise known as the General Agreement to Talk and Talk, was yesterday given the last rites prior to its burial on December 31.

Breaking all records for brevity, Gatt members attending the final annual meeting in Geneva pronounced the organisation dead after just half an hour of speeches extolling its contribution to the growth of world trade and economic wellbeing.

It was as if, after nearly half a century and eight rounds of negotiations to reduce trade barriers worldwide, most recently the eight gruelling years it took to conclude the Uruguay Round, Gatt delegates had simply run out of things to say.

Mr Renato Ruggiero, director-general of Gatt and the World Trade Organisation, its new and more powerful successor, said Gatt was instrumental in fuelling the "Golden Age" between 1950 and 1970 when world exports grew by 7 per cent annually.

The end of the Uruguay Round, the biggest trade negotiation ever undertaken, may now be producing trade growth "near that of the Golden Age", Mr Ruggiero said. "Free trade has become the backbone of economic prosperity and development throughout the world."

The Gatt contract was signed in 1947 by 23 countries and came into force in January 1948. It was originally meant to be part of a much broader accord to be administered by an International Trade Organisation with powers to regulate not only trade but commodities and investments.

In March 1948, some 53 countries signed the Havana Charter setting up the ITO but the US Congress refused to ratify it. Gatt was left an orphan, a treaty without an organisation. Until the WTO was born last January, Gatt staff badges still bore the name of the ITO Interim Committee.

From being a "rich man's club", Gatt's membership has grown to 128 countries, most in the developing world. Almost all have joined the WTO and the rest are expected to follow.

For most, Gatt's demise, at the end of the month, puts a welcome end to a curious period of limbo in which some countries have been using WTO rules, others those of Gatt. Some disputes have been launched in or transferred to the WTO's strengthened dispute settlement procedure, others have trundled through Gatt's slower and weaker mechanisms.

Press releases and documents have come out from Gatt using one logo and from the WTO with another, temporary one. Ambassadors have found themselves doubling up in meetings as Gatt business has run in tandem with that of the new organisation.

THE LEX COLUMN

Bulging pockets

The return this week of mega-bonuses at Goldman Sachs and Morgan Stanley suggests that 1995 has been a fabulous year for investment banking. And, in some ways, it has: mergers and acquisition activity is at record levels; bond and equity issuance has picked up; even securities trading has recovered.

But all is not well in the industry. Though demand for investment banking services is high, capacity is also growing. The result is that competition is mounting and there are signs of a margin squeeze.

The main culprits for the increased capacity are European commercial banks aspiring to join the investment banking big league. German and Swiss banks, in particular, are keen to expand their operations. With their domestic corporate clients increasingly demanding investment banking capabilities alongside traditional loans, the likes of Deutsche Bank and Swiss Bank Corporation want to broaden their range of services. To be effective competitors, they have to operate on a global level – hence Deutsche Morgan Grenfell's aggressive hiring spree.

But even the established investment banks are adding to capacity in an attempt to stay ahead of their new rivals. Merrill Lynch, for example, is expanding its M&A activities and planning local stockbroking operations in several new markets following this year's acquisition of Britain's Smith New Court. Meanwhile, Morgan Stanley will probably add 5-10 per cent to staffing levels in 1996.

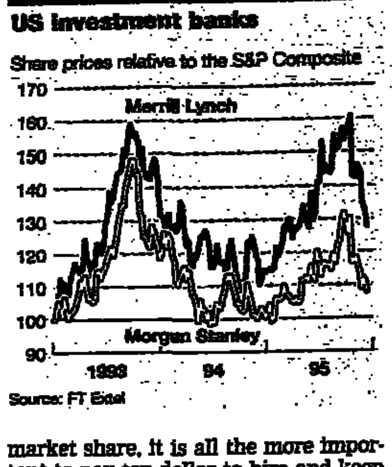
The immediate effect of such expansion is to bid up salaries. Wall Street is bracing itself for a vigorous poaching season once this year's bonuses have cleared employees' bank accounts. Firms are paying star performers increasingly high bonuses in an attempt to pre-empt such poaching.

The margin squeeze is occurring via an erosion of fees too. Investment bankers are fond of saying they compete on quality rather than price. But this is not the complete truth: rates on international equity offerings have been falling; the US primary bond market is increasingly mirroring the vicious competition of the Eurobond market; there are even cases of M&A fees being discounted.

Some investment banking services are more like commodities than others and hence more susceptible to price competition. But even high value-added services are vulnerable to a margin squeeze; when quality wins market share, it is all the more important to pay top dollar to hire and keep stars.

FT-SE Eurotrack 200: 1586.5 (+12.4)

US investment banks



Source: FT Extel

So long as demand for investment banking services remains strong, the margin squeeze may be modest. But when demand next dips, the pressure could become severe. The European commercial banks have plenty of resources to ride through a temporary downturn. And, although Lehman Brothers and Salomon Brothers have fallen behind other members of the US "bulge" bracket, neither looks likely to be driven out of the business quickly. In such a competitive market, employees could still enjoy fat salaries. But the outlook for investors is not so rosy.

European welfare reform

As it struggles to push through welfare reform, the French government must feel like Albert Camus' existential hero Sisyphus, who spent eternity rolling a stone up a hill. The risk is that other European governments, daunted by unrest in France, decide to leave that particular rock unturned.

Other European countries share many of the causes of France's predicament; the rising costs of healthcare and pay-as-you-go pension systems are unsustainable in low growth economies with ageing populations. They are less likely to take tough decisions if the French government backs down. Since France would not then meet Maastricht criteria, the 1999 target for European monetary union would have to be put back. This would be a double-whammy for bond markets, particularly the high-yielders with most to gain from monetary union, since it would also remove a big incentive for other European governments to tackle their budget deficits.

Equity markets could also suffer; improving efficiency is proving politically sensitive in the private as well as the public sector, and is made more difficult by the shadowy divide between the two. The Belgian government's stated aim of job preservation in its partial privatisation of Belgacom, for example, suggests efficiency gains may be slow in coming.

France may, however, provide a useful cautionary tale. Hiding behind the Maastricht criteria rather than selling the need for fiscal rectitude to the electorate has undoubtedly proved counter-productive.

UK engineering

After paper, packaging, steel and chemicals, engineering could be the next cyclical sector heading for a nose-dive. Over the last month, companies as diverse as Johnson Matthey, ASW and Babcock have produced poor results or given profit warnings. Glynwed, IMI, Delta and Weir have all suffered downgrades from City analysts.

Demand in the second half of this year has undoubtedly been hit by customer destocking and a slowdown in Europe. Most engineering companies argue that this is just a hiccup. But their peers in the paper industry said precisely the same thing a few months ago, and destocking there is now expected to continue well into 1996. Falling white goods sales and low levels of construction activity in continental Europe are equally worrying, since the engineering sector makes around a third of its profits on the Continent. These concerns are not fully reflected in share prices. The sector still stands on the same rating as the market generally – and at a 10 per cent premium if the much lower-rated British Steel is excluded. At the trough of the last recession, the engineering sector fell to a 30 per cent discount. Even if the current slowdown turns out to be less severe, that leaves the rating looking exposed.

Within the sector, investors should concentrate on companies like Siebe and TI, with strong cash flow and exposure to the US and Asia. Aerospace stocks such as Smiths Industries ought to prove resilient as their market starts to recover. But for the rest of the engineers there is a hard winter ahead.

Lex comment on generators, Page 17

Warning on EU economy

Continued from Page 1

EU to strengthen links between entrepreneurs and potential sources of finance. One idea is to create a second-tier stock market similar to Nasdaq in the US, but another source could be the EU's structural funds which are used to support run-down regions.

● The environment. The report says protection of the natural environment and boosting living standards and jobs are not mutually incompatible. It calls for pan-European rather than national rules and concedes that new environmental technologies could have commercial potential.

● The new learning society. The group singles out pioneer retraining schemes organised by companies, higher educational institutes and trade unions to equip people for job mobility.

French pilots

Continued from Page 1

led Yugoslav army, and of the Russian army, were present during yesterday's handover, underlining the role played by both Belgrade and Moscow during hectic negotiations over the airmen during the past few days.

Russia, in public appeals for the pilots' release, has suggested that Gen Mladic and his rival, Mr Karadzic, be spared from trial before the war crimes tribunal in the Hague which has indicted both men. Diplomats said it was inconceivable that the case against the two men prepared by prosecutors would be dropped.

Dasa fails to join European venture bidding to build jet

By Michael Skapinker in Toulouse

An attempt to establish a united European front to build a 100-seat jet with China and South Korea has failed because Daimler-Benz Aerospace (Dasa) of Germany insisted that final assembly should take place in Europe as well as in Asia.

Officials of Aero International Regional (AIR), a new British, Italian and French joint venture, believe the Chinese and Koreans will only accept a western partner which agrees that final assembly of the new jet should take place in Asia.

Mr Antonino Di Blasi, senior vice-president of AIR, said he believes that within the next two weeks the Chinese and Koreans would name two western partners from which they would make their final choice.

He said he expected AIR, a joint venture between Aerospatiale of France, Alenia of Italy and British Aerospace, would be one of the two.

The other western companies bidding to build the jet with the Chinese and Koreans are Boeing and McDonnell Douglas, both of the US, as well as Dasa.

Chinese officials indicated earlier this month that the AIR partners were front-runners in the race to build the Asian 100-seat jet. The officials said this would help lessen China's dependence on US suppliers.

German aerospace officials have expressed some irritation at being left out of AIR, which begins operations in January.

The joint venture, with headquarters in Toulouse, will combine the sales and marketing operations of the three partner companies and will study manufacturing new regional aircraft models together in the future.

Mr Henri-Paul Puel, AIR's chief executive, said: "The door for Dasa is wide open."

He said, however, that he did not believe that there was a future for Fokker, the Dutch aircraft manufacturer which is a principal competitor of the new venture.

Mr Puel said Fokker, which is controlled by Dasa, was now no more than a brand name run by the German company. He said he expected AIR to win around 100 aircraft orders a year.

This would include 25 regional jets manufactured by British Aerospace.

British Aerospace has said that it intends to make no more than 18 jets a year.

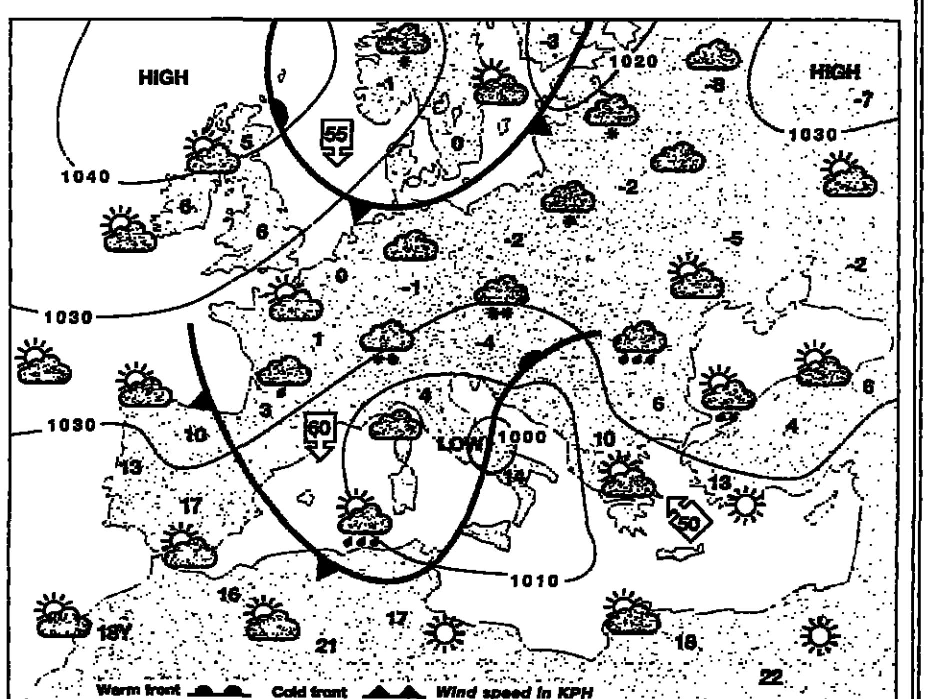
Mr Jeff Marsh, a senior British Aerospace executive who is now AIR's senior vice-president for sales and marketing, said the UK manufacturer had no immediate plans to increase its level of production but would keep an eye on market demands.

Bonn likely to buy extra Eurofighters, Page 2

FT WEATHER GUIDE

Europe today

High pressure between Iceland and Scotland will result in north-easterly winds over much of the British Isles. It will be cloudy with rain or drizzle along the North Sea coast and in the south-east. Elsewhere, it will be dry with sunny spells. It will be cloudy in the Benelux with rain and sleet in eastern parts. France will be dry with sunny spells in the south and a mistral wind in the Rhone Valley. The south-west region of the Iberian peninsula will have rain. The interior of Spain will be dry and sunny. Low pressure over Italy will cause unsettled conditions with showers from Sardinia to Crete. It will be wet along the Adriatic coast. There will be snow in the Alps and Slovakia. It will be dry from Russia to Turkey, although showers are likely across the Crimean peninsula and in Istanbul.



Five-day forecast

The Mediterranean will be unsettled over the next couple of days. The southern Iberian peninsula and the Adriatic region will be especially wet. Temperatures will continue to fall in central Europe and there will be snow in the Alps until Friday. High pressure will bring dry conditions to the UK and France.

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	rain	6	Caracas	thund	29	Faro	shower	17	Madrid	sun	10	Rangoon	sun	30
	Celsius		Belfast	fair	4	Cardiff	fair	7	Frankfurt	cloudy	0	Majorca	fair	13	Reykjavik	drzzl	7
Abu Dhabi	sun	27	Belgrade	rain	2	Casablanca	fair	18	Geneva	cloudy	0	Malta	shower	16	Rio	shower	30
Accra	fair	30	Berlin	snow	-1	Chicago	snow	1	Gibraltar	fair	17	Manchester	cloudy	6	Rome	rain	11
Algiers	fair	17	Bermuda	shower	18	Cologne	cloudy	-1	Glasgow	cloudy	5	Manila	shower	28	S. Frsco	shower	14
Amsterdam	rain	3	Bogota	fair	20	Dakar	fair	26	Hamburg	cloudy	-2	Melbourne	shower	21	Seoul	fair	7
Athens	cloudy	11	Bombay	sun	33	Dallas	sun	22	Helsinki	snow	1	Mexico City	fair	20	Singapore	fair	31
Atlanta	fair	15	Brussels	sleet	0	Delhi	sun	25	Hong Kong	fair	23	Miami	fair	24	Stockholm	snow	0
B. Aires	fair	28	Budapest	snow	1	Dubai	fair	26	Honolulu	fair	29	Milan	cloudy	5	Strasbourg	snow	0
B.ham	drzzl	6	C.hagen	sleet	2	Dublin	cloudy	6	Istanbul	shower	8	Montreal	fair	-8	Sydney	sun	24
Bangkok	fair	30	Cairo	fair	17	Dubrovnik	rain	12	Jakarta	rain	28	Moscow	cloudy	-7	Tangier	shower	17
Barcelona	sun	12	Cape Town	fair	30	Edinburgh	cloudy	5	Jersey	rain	8	Munich	snow	-5	Tel Aviv	shower	16
									Karachi	sun	28	Nairobi	fair	26	Tokyo	fair	12
									Kuwait	fair	19	Naples	rain	12	Toronto	snow	-4
									L. Angeles	rain	19	Nassau	fair	28	Vancouver	rain	9
									Las Palmas	shower	22	New York	fair	-1	Venice	rain	5
									Lima	sun	24	Nice	sun	11	Vienna	snow	-1
									Lisbon	fair	15	Nicosia	fair	15	Warsaw	snow	-4
									London	rain	8	Oslo	fair	1	Washington	cloudy	2
									Lux.bourg	cloudy	0	Paris	fair	2	Wellington	fair	21
									Lyon	fair	-3	Perth	rain	26	Winnipeg	snow	-10
									Madeira	shower	19	Prague	snow	-1	Zurich	snow	-2

IN BRIEF

Degussa upbeat as profits rise 44%

Degussa, the German chemicals, precious metals and pharmaceuticals group, lifted pre-tax profits 44 per cent to DM404m ($280m) in the financial year to September 30 and expects a further positive result in 1995-96. Page 14

French banks team up for computer project
A consortium of six French banks announced the launch of a joint computer project which will allow large inter-bank financial transactions to be carried out electronically for the first time. Page 14

Parker & Parsley to sell Bridge Oil assets
Parker & Parsley Petroleum, the US oil and gas independent which won a A$380m (US$280m) bid for Australia's Bridge Oil, said it planned to sell Bridge's Australasian assets.
Page 15

Mexican telecoms talks break down
The drive to open Mexico's $7bn telecommunications market to international competition suffered a setback after Teléfonos de México, the dominant carrier, broke off talks with its competitors on the technology that will link the industry after liberalisation in January 1997.
Page 16

Zeneca plans rise in R&D spending
Zeneca, the UK's third-largest pharmaceuticals company, plans a sharp increase in its spending on drugs research and development and on partnerships with biotechnology companies. Page 17

Tenanted pubs undermine Vaux
A sharp downturn in trading at Vaux Group's tenanted pubs undermined the UK brewer's profits for the year ended September and cast doubt on its strategy. Page 17

Pearson board prepares for young blood
Pearson is expected to announce boardroom changes to accompany the UK media and entertainment group's trading statement. Analysts expect the company to bring in a younger generation of executives. Page 17

Dole shelves plan for banana sanctions

Mr Bob Dole, US Senate majority leader, has temporarily shelved a plan to impose trade sanctions on Costa Rica and Columbia for their co-operation with European Union banana import quotas that he deems "unfair" and "illegal". Mr Dole caused surprise by announcing – amid the US budget battle over health and welfare – that trade sanctions for "unfair banana policies" were his "top priority". Page 18

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Kali & Salz	194	+	5.7
Lufthansa	204	+	5.6
Schmalbach Lub	213.5	+	10.5
Wella	707	+	27
Zanders Feinpp	150	+	8
Falls			
Hochtief	597	−	16
NEW YORK ($)			
Rises			
Checkpoint	35	+	1¼
Esterline Tech	22¾	+	2¾
Solectron	44¼	+	2¾
Falls			
Champion Intl	40⅞	−	2
Diana Corp	22⅞	−	2⅞
LSI Logic	34⅝	−	1¾
LONDON (Pence)			
Rises			
BNSS	150	+	32
BTG	1130	+	200
Bradstock	75	+	9
Goal Pet	89	+	21
Falls			
Electronic Data	128	−	14
Triton Higgs	103	−	13
TORONTO (C$)			
Rises			
Amalg Cangold	7	+	⅛
Chum B	18¾	+	1⅛
Dreco Energy A	24	+	2
Istar Intl	12⅝	+	1
Falls			
ATS Auto Tool	20	−	1⅛
Mail-Corp	7¾	−	1
PARIS (FFr)			
Rises			
Cred Lyon	288	+	13
Credit Natl	324.8	+	11.1
Falls			
Bertrand Fre	118.5	−	7.4
Club Med	378.1	−	13.4
Lyonn des Eaux	450	−	24.9
SGS-Thomson	168	−	11.9
TOKYO (Yen)			
Rises			
Daiwa Bank	734	+	34
Fuji Film	2810	+	120
Ihara Chem	699	+	31
Mizuno Sport	920	+	55
Tokico	549	+	80
Falls			
Koito Manf	716	−	35
HONG KONG (HK$)			
Rises			
Shell Elec	3.575	+	0.225
Vartronix	13.8	+	0.6
Falls			
Emperor China	0.99	−	0.1
Johnson Elec	14	−	0.8
Logic Intl	1	−	0.1
Sing Tao	3.275	−	0.225
BANGKOK (Baht)			
Rises			
Thai Commercial	39	+	2.5
Univenture	89.5	+	6
Falls			
Chingmai Frz	43	−	4
Regional Cont	232	−	18
Sri Charoen	164	−	15
Thai Toray Tex	83	−	9

New York and Toronto prices at 12.30.

NBC in $2.3bn Olympic rights deal

By Christopher Parkes in Los Angeles

NBC, the leading US television network, yesterday shook its competitors for sports viewers with a deal which gives it exclusive rights to US coverage of the Olympic Games until 2008.

The General Electric subsidiary is to pay $2.3bn for broadcast and cable distribution rights to a package comprising the summer Olympics in 2004 and 2008 and the winter games in 2006.

The company already holds the US rights to next year's summer games in Atlanta, Georgia, the millennium games in Sydney, Australia, and the 2002 winter Olympics in Salt Lake City, Utah.

The missing link, US rights to the 1998 winter Olympics in Nagano, Japan, is owned by CBS, the third-ranking network, recently acquired by Westinghouse.

Mr Michael Payne, marketing director of the International Olympic Committee, said yesterday's deal set a record, in the wake of NBC's $1.27bn contract, signed this year, for the Sydney and Salt Lake City events.

The agreement is unusual - possibly risky - in that it marks the first time broadcasting rights have been sold before the Olympic venues have been named.

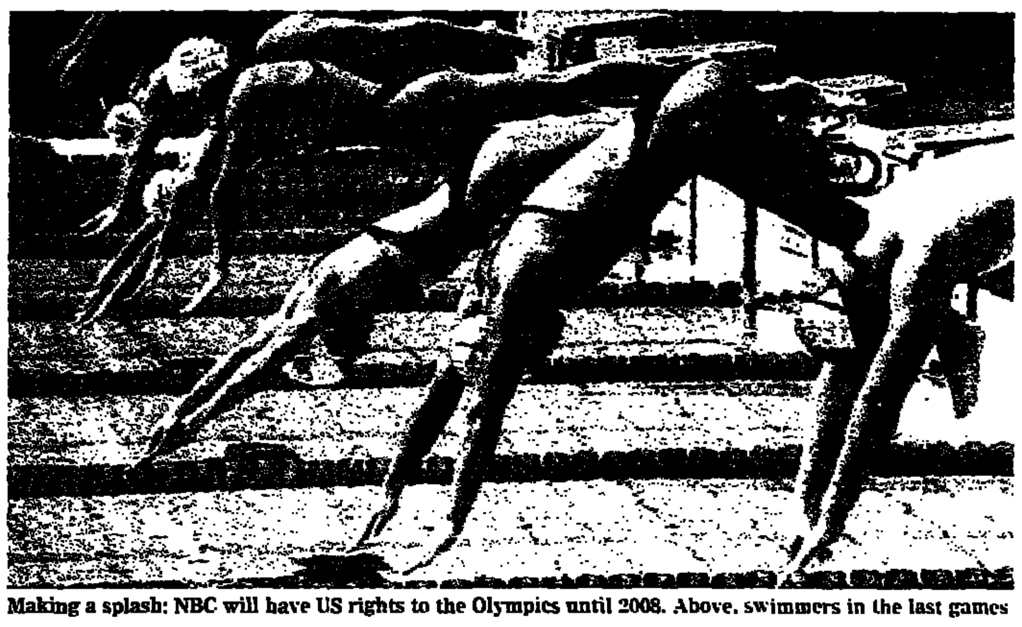
The contract also marks the first significant move among the US television industry's established companies to counter efforts from relative newcomers to expand their appeal by moving into sports.

The big-three networks, NBC, CBS and ABC were shaken recently when Mr Rupert Murdoch's News Corporation, owner of Fox Network, agreed to combine most of its sports interests with those of Tele-Communications Inc, the cable group.

In an attempt to draw disenchanted male viewers back to the TV screen, Fox had earlier secured NFL American football coverage from the programming portfolio of CBS, and then added national ice hockey.

Almost as soon as the deal with TCI had been signed, the duo bought the lion's share of major league baseball coverage. This move , into a sport which critics claimed had been irreparably damaged by a long players' strike, is believed to have forced both NBC and the ESPN sports network, now owned by Walt Disney, to reverse decisions to halt baseball coverage.

In the end, major league baseball teams shared a record $1.7bn - about $12m annually for each club - thanks to revived interest among the broadcasters. Mr Jack Welch, GE chairman, is understood to have intervened personally to ensure NBC maintained its coverage.



Making a splash: NBC will have US rights to the Olympics until 2008. Above, swimmers in the last games

Japanese banks shift bond policy

By Emiko Terazono in Tokyo and Conner Middelmann in London

Coupons on bonds issued by Japan's long-term credit banks, whose role has historically been to provide steady, low-cost funding to the country's industry, are diverging for the first time in the post-war era. The move reflects widening gaps in the banks' credit ratings.

Financial analysts see this as a sign that market forces are finally changing Japan's capital markets. "Investors are discriminating not just by identity but also by financial strength," said Mr Jesper Koll, economist at J.P. Morgan in Tokyo.

The Long-Term Credit Bank (LTCB) and Nippon Credit Bank (NCB) yesterday announced that the coupons on their five-year bonds, or debentures, issued this month, will be higher than those of Industrial Bank of Japan (IBJ), the leading long-term credit bank. IBJ's rate was set at 1.7 per cent, LTCB's at 1.9 per cent and NCB's at 2 per cent. Bank debentures are available only to domestic investors.

Until now, the coupons on the bonds have been identical because of the cohesive nature of the industry and the prevailing understanding among investors that their strengths were the same.

The bonds have been the main source of funding for the long-term credit banks, which lack the vast retail network of Japan's leading banks. Higher coupons will increase the fund-raising burden for the banks. LTCB expects a Y2bn ($19.8m) rise in funding costs this year, while NCB's costs are expected to increase by as much as Y3bn.

The banks expect to absorb the increases through cost-cutting efforts.

The divergence in coupon levels will squeeze profits on banks' lending activities as Japan's long-term prime rate – the rate at which banks lend to corporations – is set at 90 basis points over prevailing bank debenture coupons. It has most recently been pegged to IBJ's 1.7 per cent rate, which means that lending margins for other banks will shrink – in NCB's case, for example, to 60 basis points.

Investors began to discriminate between the banks on the secondary markets this year, with LTCB's bonds yielding 20 basis points above those of IBJ's, and NCB's yielding as much as 80 basis points over their lowest-yielding counterpart.

Banks move to increase bonus differentials

By Nicholas Denton in London and Maggie Urry in New York

Goldman chairman calls for 'steeper incentive curve' to channel rewards to top performers

International investment banks are discriminating strongly between their strongest and weakest staff in the annual bonus round launched yesterday by Goldman Sachs, Morgan Stanley and Salomon Brothers.

Average bonus levels at Salomon Brothers, which yesterday finished telling staff their bonuses, were steady, but it said it had introduced "more tiering", rewarding the best staff and penalising underperformers. Differentials have been a theme at Morgan Stanley, which said bonuses would be higher than 1994's, reflecting improved market conditions and the industry upturn.

Goldman Sachs, which nearly doubled bonuses on average and paid 53 executives $1m or more each, told staff it was moving towards "more differentiation in compensation to recognise individual merit and performance". Mr Jon Corzine, chairman, said the firm wanted "a steeper incentive curve for individuals".

GZ Stephens, the Wall Street executive search consultants, estimated that top performers, whose bonuses typically exceed $1m, would enjoy increases of 30-40 per cent, while weaker colleagues remained static. "Some will find coal in their stockings, others jewels," it said.

Other headhunters also expect bonuses for top performers to rise, while average bonuses remain flat and well below the exceptional levels enjoyed amid 1993's rising bond and equity markets.

Deutsche Morgan Grenfell, the investment banking division of Deutsche Bank of Germany, plans to announce bonuses in February, in common with most investment banks whose financial year ends in December. But a global review of compensation completed last week points to sharper individual incentives.

DMG, the merged investment banking businesses of Deutsche Bank and Morgan Grenfell, will reduce or restrain salaries while bonuses linked to individual performance will grow in importance.

The largest rewards reflect investment banks' determination to retain key staff in the face of US and European commercial banks' efforts to build their securities trading and advisory activities.

Headhunters say lower bonuses for some staff are designed to reduce staff costs, typically half a US investment bank's net revenues, and to "trim fat" by encouraging underperformers to leave.

Banks such as Goldman Sachs have, however, developed broad measures of individual performance to reward executives who work well with others. "If you hog 50 deals and don't let anyone else in, that is not viewed as terrific performance," said a Goldman Sachs executive.

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Tomkins plans $1bn takeover of Gates Rubber

By Tim Burt in London

Tomkins, the UK industrial conglomerate, is today expected to announce plans for an estimated $1bn bid for Gates Rubber, the US automotive and industrial components manufacturer. It would be the group's largest acquisition since its £990m ($1.5bn) takeover of Ranks Hovis McDougall, the UK foods group, in 1992.

Tomkins has been selected as the preferred bidder by Gates Corporation, the privately owned Colorado group, which has been seeking a buyer for its components subsidiary since March.

Tomkins is understood to have beaten rival bids from Tenneco, the Houston-based industrial group, and Dana Corporation, the Ohio car parts manufacturer.

If agreed, the proposed all-paper offer for Gates would make Tomkins the world's largest manufacturer of power transmission belts and hose products for the automotive industry.

Gates Rubber, which employs about 14,000 people, has an estimated 65 per cent of the North American market for such products. Last year it reported sales of $1.38bn.

Family shareholders at Gates are understood to have responded positively to suggestions that they take shares in Tomkins, with a commitment not to sell them in the short term. Contracts are being negotiated and are expected to be signed before the end of the year.

The move follows a long acquisition search by Tomkins, which said in July it was ready for its next big deal following the integration of RHM.

If the deal goes ahead, the Gates Rubber business would probably be integrated into Tomkins's industrial products division, which made profits of £65.3m in the year to April. At its year end the group had £289m net cash.

Although Gates does not disclose its profits, its contributions would underline the industrial division as Tomkins's main profits driver. The group declined to comment on the prospective deal yesterday.

Tenneco said it was disappointed not to be selected by Gates. Mr Dana Mead, chairman and chief executive, said: "Tenneco submitted a disciplined bid for Gates that met our strict acquisition criteria. We have been informed that bid was not selected. We'll move on to other opportunities."

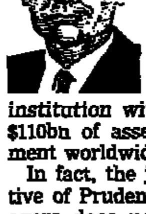
Dana Corporation declined to comment.

Gates narrowed its selection to Tomkins after ruling out bids from leveraged buy-out firms and non-manufacturing groups.

Shares in Tomkins were unchanged yesterday at 262p, close to their high for the year of 269p.

Barry Riley

The search for Britain's biggest investor



One job that has hung around in the situations vacant list for a while now is that of investment boss of Prudential Corporation, the UK's largest investment institution with something like $110bn of assets under management worldwide.

In fact, the job of chief executive of Prudential Portfolio Managers does not become vacant until the end of this month, when Mr Hugh Jenkins retires, aged 62. Perhaps the Pru's management has been distracted from the question of the succession by the need to appoint a new chairman and a chief executive for the whole organisation earlier this year. But the approach of an interregnum highlights the growing difficulty of filling these top posts when competitive investment performance is becoming ever more important.

Once, insurance companies simply promoted the next actuary in line. Investment was a dull department which bright people moved through to gain necessary experience but were quickly promoted out of. The same applied to merchant banks: the best and most ambitious people rapidly gravitated to the more glamorous and remunerative corporate finance department.

In the 1980s, though, life companies were forced to wake up. Pension fund business was being grabbed by a handful of merchant banks like Mercury, the Warburg offshoot, and Schroders, neither of which made the mistake of regarding fund management as a Cinderella business. Big market positions were built by PDFM, originally part of a stockbroking firm, and Gartmore, once a specialist manager of investment trusts.

For a time the Pru's investment arm, PPM, carried the flag for life companies. It attracted segregated pension fund business on a healthy scale up to 1991, when it was fifth in the league of volume of pension funds managed. In 1990, PPM's then boss, Mr Mick Newmarch, was promoted to chief executive of Prudential Corporation and Mr Hugh Jenkins was recruited as a heavyweight outsider to follow him.

A vigorous market in peripatetic investment chiefs has subsequently developed. Other big institutional managers in London to have recruited externally during the past year or two include Henderson, Threadneedle, NatWest Investment Management and Robert Fleming.

An interregnum highlights the difficulty of filling top posts

Can success be imported? It probably depends on what the outsider can be expected to do. He may improve morale and structure in a house with fading results. But the transformation of the investment results may be another matter entirely.

Successful investment institutions have a well-tried investment process developed over many years. The best individuals are often rather introverted and intense, and they operate most successfully within the framework of a small team. There are diseconomies of scale here which Mercury Asset Management, the biggest UK manager of pension funds, has sought to address by splitting itself up internally.

Certainly the Pru's investment fortunes have faded. Its performance in pension funds has been poor and it has slipped to seventh in the league table. It has also failed to shine in the unit trust performance tables (apart, curiously, from its fund of funds).

The new PPM supremo will need to be not just an investment genius and an effective manager of a big department, he will also have to handle the Pru's burden in corporate governance as the biggest UK investor. The Pru owns 3½ per cent of the UK equity market and sets an example by voting on all shareholder resolutions of the 800-odd companies in which it invests.

There are many lunches and dinners with big corporate bosses, who will not be fobbed off with juniors. Moreover the Prudential's investment boss is bound to be heavily involved in investment industry politics, focusing now on the forthcoming Hampel committee.

Setting the job specification out like this, it is tempting to conclude that if the right man (or woman) does exist the Pru would not want to pay the price. Certainly, it is worth asking whether such giant institutions can compete with fleet-footed boutiques. In particular, there is a danger that its corporate governance activities may be inhibiting its own performance while perhaps creating a "free rider" opportunity for others.

The Pru is already seeking to outsource its global custody. It is not yet on the agenda, but might it even consider sub-contracting part of its investment management next?

INTERNATIONAL COMPANIES AND FINANCE

EUROPEAN NEWS DIGEST

BES eyes stake in Chemical bank arm

Banco Espírito Santo (BES), Portugal's fourth largest financial group, is negotiating to buy Banco Chemical, the Portuguese subsidiary of Chemical Bank of the US, in a deal brokers value at about Es28.4bn ($187.1m). BES is expected to help finance the purchase of 80.1 per cent of Banco Chemical by managers and institutional investors, and acquire the remaining 19.9 per cent of the capital itself, Lisbon brokers said.

Chemical Bank said yesterday it was holding talks with BES on the sale of its 67 per cent holding in Banco Chemical but gave no further details. Brokers said Chemical Bank may swap 19.9 per cent of Banco Chemical for a 2 per cent holding in BES. The purchasers are expected to make a public offer for 100 per cent of Banco Chemical shortly. The capital not owned by Chemical bank is distributed among small shareholders.

Banco Chemical shares rose 0.61 per cent to Es1,640 yesterday when they resumed trading after being suspended last Thursday because of speculation over an acquisition. Mr Belmiro de Azevedo, chairman of Sonae, Portugal's biggest retail and industrial conglomerate, is one of the institutional investors who acknowledged participating in the proposed acquisition. A spokesman said his investment would be personal and would not involve Sonae. *Peter Wise, Lisbon*

Hungary agrees on Matav sale

Hungary has reached agreement with a consortium of Germany's Deutsche Telekom and Ameritech of the US on the sale of a majority stake in Matav, its partly privatised telecommunications company. It would sign a contract today, a senior government official said last night.

APV Rt, the state privatisation agency, has been in talks with the consortium over the planned sale for several months. The two companies bought 30.3 per cent of Matav for $875m two years ago and have management control. Deutsche Telekom declined to comment on whether an agreement had been reached. The consortium has been negotiating to increase its stake to 60-70 per cent, with an undertaking to float the company and reduce its shareholding.

APV Rt holds about 65 per cent of the company. A stake of 25 per cent plus one vote is to stay in state hands while management and employees are also due to be offered shares. *Virginia Marsh, Budapest*

Bank Gdanski sell-off rescued

Poland's Bank IG, a private sector bank, has bought 24.07 per cent of the equity in Bank Gdanski. The move effectively rescues the sale which is being completed this week by Daiwa Europe and HSBC, the joint lead managers for the privatisation. The Warsaw Stock Exchange announced at the weekend that 6.5m Bank Gdanski shares reserved for domestic investors and priced at 24 zlotys each had been 30 per cent oversubscribed. This forced the transfer of 500,000 shares from the foreign tranche, leaving 5.9m shares for sale abroad through global depositary receipts (GDRs). BIG's move, in which it took over two thirds of the local tranche at a cost of 113.3m zlotys ($45.3m), ensured the success of the sale domestically. *Christopher Bobinski, Warsaw*

VW lifts Skoda interest to 70%

Volkswagen, the German car maker, has raised its majority stake in Czech Skoda Automobilova to 70 per cent at a cost of DM390m ($270m). VW took its original stake in 1991. The agreement with the government allowed Volkswagen to raise its stake in Skoda from 60.3 per cent to 70 per cent by the beginning of 1996. *Reuter, Prague*

An abdication that leaves questions unanswered

The Fiat chief's decision to step down may have opened a race for the main executive position

Abdications always come as a shock, even when well-heralded. So when Mr Gianni Agnelli told a group of 500 Fiat managers on Monday that he intended to step down as chairman of the Italian automotive and industrial group, it seemed to take Italian analysts by surprise.

Yesterday, Fiat declined to add to the general statement made by Mr Agnelli, in which he made clear he would hand over the chairmanship to Mr Cesare Romiti, the group's chief executive, who would guide the company towards the moment when "new generations" of managers could take over. But his announcement left a number of questions unanswered.

It is not clear, for example, exactly when Mr Agnelli will go. He has already postponed his retirement once, two years ago, when Fiat was at the low-point of its 95-year history. He overruled a previous decision to allow his younger brother, Umberto, to take over, arguing that Fiat shareholders wanted him and Mr Romiti to see the group through the crisis.

The strong recovery of the group gives the top management a chance to retire gracefully, taking much of the credit for turning the company round.

On Monday, Mr Agnelli said he wanted to reinstate the upper age limit of 75 for Fiat's operating managers ("even cardinals lose their vote in consistory after 75," he told the Fiat executives). He will be 75 in March next year, which suggests he could relinquish the chairmanship in the next few months, but no date has been specified.

Whether Mr Romiti will simply add the role of chairman to his existing responsibilities as chief executive is also unclear. If, as seems most likely, the jobs remain separate, then Mr Agnelli has opened a race for the main executive position in Italy's largest private-sector industrial company.

The front-runners seem to be three divisional heads: Mr Paolo Cantarella, 51, who has the advantage of heading the core cars business during one of its most successful periods since the war; Mr Giancarlo Boschetti, 56, the managing director of Iveco, the commercial vehicles subsidiary; and Mr Riccardo Ruggeri, 61, who heads the New Holland agricultural and construction equipment activities.


Gianni Agnelli: has already postponed his retirement once


Cesare Romiti: will turn 75 in June 1998

There were suggestions yesterday that Mr Romiti could be replaced by an executive "troika" of divisional chiefs, thus pushing aside Mr Giorgio Garuzzo, the group's general manager and technically second in command to Mr Romiti.

In the medium term, however, Mr Agnelli's decision to elevate Mr Romiti to the chairmanship does little to answer the succession question. Mr Romiti himself will turn 75 in June 1998. At that point, Italian observers believe he could hand over the chairmanship of the group to Mr Giovanni Alberto Agnelli, Umberto's 31-year-old son.

His uncle seemed to name Giovanni Alberto over the summer as the most likely candidate to head the company in the future, although both Mr Romiti and Mr Gianni Agnelli have said since that the young Agnelli is happy running Piaggio, the scooter company which is not directly linked to the group. But he is already a board member at Fiat. He also represents the family holding companies, Ifil and Ifi, on the shareholder syndicate which controls Fiat.

It is a firm reminder that in spite of the international nature of Fiat's shareholder register (Alcatel of France and Deutsche Bank are also part of the shareholder syndicate), the founding Agnelli family still controls 31 per cent of the company through Ifi and Ifil.

Mr Gabriele Galateri di Genola, managing director of the two holding companies, is another candidate for the post of chief executive at Fiat.

The question of whether Fiat is still best run by a scion of the founding family is hardly raised in Italy, where the Agnelli dynasty receives royal treatment. But amid the generally reverential coverage yesterday, Mr Agnelli's statement did draw some queries from Italian newspapers.

Even Il Sole 24 Ore, the daily owned by the Italian employers' federation, wondered aloud about whether the timing of the move had been influenced by last week's decision by Turin magistrates to ask for Mr Romiti to be sent for trial for alleged links with illegal financing of political parties.

Mr Agnelli made clear on Monday that he believed the Turin investigation would absolve Mr Romiti and other Fiat executives, thus reinforcing "the image of Turin and the solidity of its institutions, judiciary and Fiat included".

What seems certain is that Mr Agnelli will continue to have his finger on the pulse of the group. He may have been vague about the timing and detail of his replacement, but he was clear he would remain chairman of Ifi and part of the shareholder syndicate.

He may envy the role played by his friend Mr Enrico Cuccia, the 88-year-old honorary chairman of Mediobanca, Fiat's house bank. Mr Cuccia continues to guide the bank years after his official "retirement", a living reminder that in Italy, it is always dangerous to hail the end of an era.

Andrew Hill and Robert Graham

Myllykoski considers US move

By Christopher Brown-Humes in Stockholm

Myllykoski, the Finnish forestry group, said yesterday that its Madison Paper unit in the US was considering a FM2.2bn ($506m) investment in a new magazine paper machine. Such a move would add to fears of overcapacity in the pulp and paper sector at a time of weaker price trends.

The news emerged a day after Stora, the Swedish pulp and paper company, said it would spend C$650m (US$471m) building a Canadian plant to produce exactly the same paper grade.

The two projects, representing some of the biggest investments ever made by European paper groups on the other side of the Atlantic, would together add more than 700,000 tonnes to North American production of uncoated "SC" paper used for magazines and advertising material. North American consumption of this grade amounts to about 2m tonnes a year.

Madison Paper, 60 per cent owned by Myllykoski and 40 per cent by the New York Times, produces about 200,000 tonnes of SC paper a year from a plant in Madison, Maine. The aim would be to add a new machine, capable of producing 380,000 tonnes of SC paper a year, to come on stream in 1997.

Mr Carl Björnberg, Myllykoski's chief executive, said a decision on the project would be taken soon.

He described Stora's announcement as a "big surprise". Asked whether it would lead Myllykoski to change its plans, he said: "We need to be realistic. Two projects with the same timing doesn't sound very smart."

Some analysts believe privately-owned Myllykoski might instead turn its attentions to the European market. It has recently unveiled plans for extensive co-operation with fellow Finnish pulp and paper Metsä-Serla, including expansion in the European printing paper sector. It is also mulling over plans to build a coated magazine paper machine with 300,000 tonne capacity a year at its Albbruck plant in Germany.

Shares in Nordic forestry companies, which have fallen heavily on evidence that the pulp and paper cycle is turning downwards, were unsettled by the capacity expansion talk and by a broker's downgrading of the sector. The Finnish forestry index fell 2.3 per cent, while Swedish forestry stocks dropped 1 per cent.

Some analysts suggested Stora and Myllykoski might be engaged in a game of brinkmanship, with each company hoping to deter the other from proceeding with its project.

French banks go electronic

By Andrew Jack in Paris

A consortium of six French banks yesterday announced the launch of a joint computer project which will allow large inter-bank financial transactions to be carried out for the first time electronically rather than by hand.

The project highlights the limited use of electronic transfers for high-value transactions in the French banking world, causing the sector to lag sharply behind its competitors in the US, UK, Germany and Switzerland.

Crédit Agricole, Crédit Lyonnais, Crédit Commercial de France, Crédit du Nord, Barclays France and the Caisse des Dépôts have spent a total of about FFr30m ($6m) developing a system in conjunction with Cap Gemini Sogeti, the computer consulting firm, and Altis, another consultant.

The system, which will begin operating early in 1997, will allow the banks in the partnership for the first time to carry out transfers between each other and the Bank of France entirely by computer for amounts in excess of FFr5m.

Every day there are an estimated 20,000 domestic transactions between banks in France above this threshold, with a total value of FFr800bn. All are carried out manually with records on paper.

Mr Pierre Heskia, head of treasury and balance sheet management at Barclays in Paris, said that one reason for the lag was that France had concentrated on "dematerialising" or converting into electronic form transactions at lower values – including share purchases – and was in advance of other countries in this area.

He said several other French banks had refused to join the partnership, but they would be among those sought by the six founder members as they commercialised the new system over the next two years.

He said the fee for other banks joining the system would be between FFr300,000 and FFr3m, depending on the nature of the transactions carried out and their specific needs.

The new computer system will allow all daily domestic transfers between banks in excess of FFr5m to be handled electronically. It will also handle a further estimated 20,000 transactions above FFr5m with non-resident accounts in France which total FFr400m and are already dematerialised.

Separately, it will be designed to operate a "netting system" for a smaller number of leading banks, which allows them automatically to offset payments out against receipts coming in every day to each institution.

Degussa upbeat after 44% advance in year

By Andrew Fisher in Frankfurt

Degussa, the German chemicals, precious metals and pharmaceuticals group, lifted pre-tax profits by 44 per cent to DM404m ($280m) in the financial year to September 30 and expects a further positive result in 1995-96.

It is raising its dividend from DM10 to DM12.50 a share. Earnings per share rose from DM23 to DM38, reflecting the improved profits performance and a low tax rate. Because of a tax loss carry-forward – stemming from past losses at Leybold, the vacuum technology unit sold last year to Oerlikon-Buehrle of Switzerland – the parent company again does not have to pay domestic income tax. The shares rose 2 per cent to DM475.

Turnover was flat at DM13.9bn. However, Degussa said it would have risen by 5 per cent if the strong D-Mark had not reduced the value of sales of some foreign operations and precious metals prices. Foreign activities account for 75 per cent of sales.

Chemicals earnings improved substantially, and sales rose 7 per cent to DM5.2bn. Metals sales, excluding precious metals trading, rose 7 per cent to DM3.1bn. Operating results also improved.

Precious metals performed well but earnings were again affected by restructuring charges.

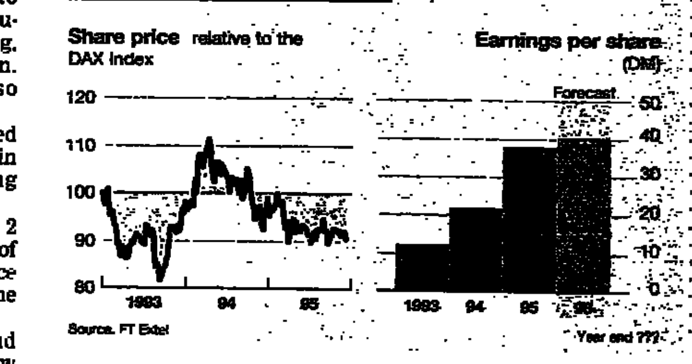
Pharmaceutical sales fell 2 per cent to DM2.1bn because of the impact of lower gold price quotations in D-Marks on the sales total.

The group said sales and profits had continued to grow in the current financial year, although future growth rates would not be as large as those of last year. Although economic forecasts had generally become more cautious, it said: "We are confident of reporting good financial results again in 1995-96."

COMPANY PROFILE:
Degussa

Market capitalisation	$2.8bn
Main listing	Frankfurt
Historic P/E	13.5
Gross yield	2.15%
Earnings per share, 1995	DM.38
Current share price	DM 475


Gert Becker
chairman



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CONTRACTS & TENDERS

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INTERNATIONAL COMPANIES AND FINANCE

Parker & Parsley to sell Bridge Oil assets

By Nikki Tait in Sydney

Parker & Parsley *Petroleum*, the US oil and gas independent which last year won a A$380m (US$280m) bid for Australia's Bridge Oil, said yesterday it planned to sell Bridge's Australasian assets.

At the time of the offer, P&P made no secret of its interest in Bridge's US-based properties but also said that its offer was "part of its overall strategy to pursue growth internationally, particularly in Australia".

In response to speculation then that its asset trader reputation might lead to a sale of the Australian interests, executives said they planned to retain the bulk of these.

Yesterday, however, the US parent said it believed there was "significant value in these [the Australian] assets that is not being reflected in our stock price".

It said that by realising the value of these assets and "redeploying the proceeds for accelerated drilling activity" in the US as well as using the money to pay down debt, it could "generate superior results" for shareholders.

The US company said it would conduct a parallel stock market flotation and trade sale process, investigating both possibilities simultaneously.

Price war set to redefine HK media map

Cuts are expected to prompt shake-up in country's newspaper sector, writes Simon Holberton

It was Miss Sally Aw, chairman of Sing Tao, one of Hong Kong's leading newspaper groups, who summed up the prevailing mood among newspaper proprietors about *the colony's newspaper price* war.

"I think it's going to last," she said yesterday. "But it is a very unpredictable situation; let's see what happens in the next few weeks."

One thing that does seem sure, however, is that the price war unleashed by the Oriental *Press Group, publisher of* Oriental Daily, Hong Kong's most popular paper, will redefine the media map in the colony.

Newspaper executives expect the price war, which comes at a time of high newsprint costs and slackening advertising revenues, to lead to a shakeout in Hong Kong's newspaper sector.

It is one of the most densely populated newspaper sectors in the developed world. For a population of just 6m, there are 50 general Chinese-language newspapers in Hong Kong, of which 40 deal with both local and international news. There are also three local English-language newspapers.

The biggest uncertainty is whether the price war will spill over from the tabloids to the quality papers in Hong Kong. Sing Tao group has a foot in both markets – it publishes the "respectable" Sing Tao and the more popular Tin Tin Daily – which perhaps explains the 16 per cent fall in the company's share price on Monday. It fell a further 6 per cent yesterday to HK$3.275.

The first casualty, however, was TV Daily News, a *specialist publication* with a circulation of just 3,000.

Among listed newspapers thought vulnerable are Hong Kong Daily News, a listed affiliate of Mr Albert Leung's Emperor group, and the Express, which is owned by South China Group and Mr Robert Ng's Sino Land.

Hong Kong Daily News cut its cover price to HK$1 on Monday and, in the words of one analyst, "has no where *else to go*", while the Express is seen lacking critical mass.

The pretext for Oriental's cut in price from HK$5 to HK$2 is its 28th anniversary, which it said prompted its desire to express its "sincere thanks" to "our loyal readers". In Cantonese, "twenty-eight" also sounds like the phrase "easy to become rich".

Few believe, however, that a desire to reward loyal readers comes close to explaining the company's action.

The object of Oriental's offensive is Apple Daily, Hong Kong's latest Chinese daily, which is privately owned by Mr Jimmy Lai, a local entrepreneur, who also owns a successful weekly magazine and founded Giordano, a casual clothes retailer.

Since Apple's appearance on the news stands in late June, it has risen to become Hong Kong's second, or third largest selling daily newspaper. It claims to sell 310,000 a day, but has yet to produce audited proof.

Oriental claims a sale of around 600,000 but refuses to be audited.

Mr Lai said the price war was a "reaction to our coming dominance". He said Oriental Group had "deep pockets" and he did not know how long the price cutting would last.

"As long as we can survive the initial phase of the war I think we will be OK. But it's going to be a long war. If Oriental can't get us they will go for the rest."

However, the effect of the price war – Apple has cut its cover price by HK$1 to HK$4 – has already hurt Mr Lai. He was looking to achieve break-even by March of next year; that aim has now been put back to the summer and may retreat further into the future if his is forced to cut his price again.

"We will stay at $4," he says. "We will *seek another road to* success, the quality road."

It is a price war few can afford. Newsprint prices are at an historic high and advertising volumes are depressed. Over the past 18 months, news print prices have more than doubled from US$450 a tonne to around US$960 a tonne.

At the same time, Hong Kong's economy has slowed, with consumer spending weakening appreciably. This has been reflected in declining advertising revenues.

Advertising revenues, January-October (HK$ '000)

	1994	1995
Apple Daily		72,463
Express Daily	98,556	86,076
Hong Kong Daily News	84,125	94,195
Ming Pao Daily News	420,867	372,392
Oriental Daily News	1,012,575	810,459
Sing Tao Jih Pao	314,867	280,273
Tin Tin Daily News	199,518	170,141

Source: SRG Research Services (Hong Kong)

Indeed, according to SRG Research Services, a firm which tracks advertising in newspapers, in *the first 10* months of this year, advertising revenues of the 21 dailies its follows were down 13.7 per cent, while the volume of advertising declined 22.2 per cent.

On both measures – value and volume – Oriental Daily is performing worse than the market average. Its advertising revenue was 20 per cent lower in the first 10 months of this year compared with the same period in 1994. Its advertising volumes were 26.6 per cent lower on the same basis.

"There's a lot of uncertainty around at present," says Miss Aw. "I have to look at it day-to-day. I can't plan ahead."

Investors sought for Malaysian hydroelectric project

By Kieran Cooke in Kuala Lumpur

Deep in the tropical rainforests of the East Malaysia state of Sarawak, on the island of Borneo, logging teams are at work clearing the site for the M$15bn (US$5.9bn) Bakun hydroelectric power scheme, one of the most ambitious and *controversial infrastructure* projects in Asia.

Now Bakun's developers are issuing a clarion call to the world's investors to become involved. Bakun Hydroelectric Corporation, the company appointed by the Malaysian government to operate the scheme, says it plans to submit an application next month for a listing on the Kuala Lumpur stock market.

The application will be made under guidelines issued recently by Malaysia's Securities Commission which allow companies to seek a listing based on future cash flow from projects in the country's fast expanding infrastructure sector.

The Bakun announcement has raised eyebrows in the local investment community. "It is very difficult to see exactly who will want to put their money into Bakun," said one Kuala Lumpur-based foreign broker.

"Local investors who enjoy a gamble might be interested – but then they want their money back fast. The pay-back from Bakun could stretch well into the next century."

The Bakun project involves building a dam nearly twice the height of Egypt's Aswan in the midst of the dense tropical jungles of Sarawak. An area of land bigger than Singapore will be cleared of vegetation and flooded. Nearly 10,000 people, mostly tribespeople, will be moved from their land.

More than 400km of overhead cables will take the power from the Bakun dam to the southern tip of Sarawak. The power will be then fed through more than 600kms of submarine cable to the south of the Malaysian peninsular.

Power experts question whether the dam will be capable of generating the 2,000MW or more of electricity stated in the plans. They also say transporting power over such distances will involve substantial losses along the way.

Meanwhile, environmentalists and opposition politicians in Malaysia have attacked the project, describing it as a potential environmental time bomb. They also say excessive secrecy has surrounded the scheme.

Dr Mahathir Mohamad, the prime minister, says Bakun is vital for Malaysia's future power needs and accuses those opposed to the project of wanting to sabotage the country's economic progress.

The main figure behind Bakun is Mr Ting Pek Khiing, a Sarawak-based entrepreneur who has quickly become one of the stars of Malaysia's corporate scene.

Ekran, a listed company controlled by Mr Ting, was given the go-ahead to develop Bakun last year. The project was awarded without a tender being called. Ekran has been involved mainly in hotel construction and has little experience in the power sector.

Though Bakun was originally conceived as a private sector project, the government has pledged substantial funding, mainly from the state-run compulsory pensions scheme.

Mr Ting said yesterday that 16 local and international companies had submitted bids for Bakun's main engineering and construction contracts.

ASIA-PACIFIC NEWS DIGEST

CRA confident over tie-up with RTZ

Mr John Uhrig, chairman of CRA, the Australian mining group, told shareholders yesterday the proposed dual listed company structure with RTZ of the UK "seemed to be getting very high acceptance" as proxy votes rolled in ahead of a shareholder vote on the matter next Wednesday. The flow of proxies, he added, was the highest the company had seen, although he stressed that CRA was anxious that remaining shareholders also made their views known.

The tie-up with RTZ, which holds a 49 per cent stake in CRA, would see the two groups merge operationally and install common boards of directors. They would report on a unified basis and pay similar dividends. However, shares in RTZ and CRA would remain listed on their respective *exchanges; there would no bid by either* company for the other; and no assets would be transferred between them.

Mr Uhrig's comments came at one of a series of meetings the Australian company is holding to explain the deal to shareholders. *Nikki Tait, Sydney*

Investment arm for China Steel

China Steel, Taiwan's fourth largest manufacturer, is setting up an investment company in order to diversify into other manufacturing industries. According to plans approved by the board of directors, China Steel will invest T$1bn (US$36.6m) in the company, to be established in 1996. China Steel, which recorded sales of T$66.5bn last year, was privatised in April. *Peter Harmsen, Taipei*

Top level changes at News arm

Mr Lachlan Murdoch, the son of Mr Rupert Murdoch, the media proprietor, has been appointed deputy chief executive of News Limited. News Limited is the Australian arm of Mr Murdoch's News Corporation, the international media and entertainment group.

Lachlan Murdoch has been working at News Limited since last year and earlier this year became publisher of the newspaper The Australian. He is already a director of News Limited.

News also said yesterday that Mr Robert Muscat had been appointed chief operating officer at News Limited, with Mr Ken Cowley remaining chairman and chief executive of the Australian arm. *Nikki Tait*

Independent Press lifts NZ stake

Independent Press Holdings, a holding company for Ireland's Independent Newspapers and its principal, Tony O'Reilly, has increased its stake in New Zealand publisher Wilson and Horton from 43.83 per cent to 45.15 per cent, the New Zealand Stock Exchange said.

Independent Press Holdings said it had bought 1.3m Wilson and Horton shares for NZ$12.35m (US$8m), or $9.50 a share, on December 12. Independent Press reported on December 1 it had raised its holding from 36.7 per cent to 43.83 per cent. *Reuter, Wellington*

JAL considers India route

Japan Airlines (JAL) said it was considering operating a route from Japan to India as early as the 1996-97 business year. JAL's destination in India would probably be New Delhi or Bombay, it said.

JAL operated a Narita-New Delhi route until 1992 but suspended it because of insufficient demand. However, it said an increase in demand could be expected because the Indian economy was expanding rapidly. *Reuter, Tokyo*

Prices for electricity determined for the purpose of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 13.12.95: Pool purchase price £/MWh	Final Prices for Trading on 15.11.95: Pool purchase price £/MWh	Pool selling price £/MWh
0030	34.06	9.07	9.07
0100	37.79	12.97	15.65
0130	50.00	12.97	15.65
0200	50.00	12.89	15.58
0230	36.11	8.98	11.65
0300	43.91	9.04	9.04
0330	43.91	9.02	9.02
0400	38.11	9.00	9.00
0430	31.89	9.00	9.00
0500	31.89	8.98	8.98
0530	31.37	8.97	8.97
0600	31.37	9.00	9.00
0630	31.37	9.07	9.07
0700	31.54	19.14	21.82
0730	33.66	20.13	22.82
0800	41.24	31.89	34.59
0830	43.06	38.15	35.86
0900	51.86	33.20	35.93
0930	63.60	33.74	36.47
1000	64.17	33.78	36.50
1030	62.82	33.77	36.50
1100	51.40	33.78	36.53
1130	50.81	33.80	36.55
1200	51.39	42.60	45.36
1230	50.03	42.59	45.35
1300	47.77	42.58	45.32
1330	42.03	42.49	45.22
1400	38.79	33.73	36.45
1430	39.70	33.71	36.43
1500	63.90	33.71	36.42
1530	86.01	33.78	36.50
1600	209.72	38.30	39.88
1630	517.60	84.23	98.76
1700	880.50	164.38	191.36
1730	900.41	196.60	222.25
1800	651.39	165.40	186.94
1830	307.59	85.53	96.03
1900	160.78	68.67	63.86
1930	98.40	45.26	48.75
2000	65.19	41.99	44.86
2030	47.52	35.34	38.07
2100	35.85	36.30	38.99
2130	33.55	31.88	34.66
2200	33.06	20.12	22.81
2230	32.94	19.94	22.63
2300	32.94	19.94	22.63
2330	32.84	13.03	15.72
2400	26.53	9.02	9.02

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.95/MWh becomes 1.895p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 [illegible] between 8:30am and 5:15pm Monday to Friday.
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INTERNATIONAL COMPANIES AND FINANCE

Telmex walks out of talks on liberalisation

By Leslie Crawford in Mexico City

The drive to open Mexico's $7bn telecommunications market to international competition suffered a setback after Teléfonos de México, the dominant carrier, broke off talks with its competitors on the technology that will link the industry after liberalisation.

Telmex will lose its monopoly over long-distance telecommunications, both inside Mexico and as an international carrier, in January 1997. Five international groups and their Mexican partners have won concessions to provide rival services, but their decision to invest billions of dollars to expand the industry depends on all the participants agreeing on technology that will guarantee a level playing field.

Avantel, a joint-venture between MCI of the US and Banamex, Mexico's largest bank, confirmed Telmex had walked out of two technical committees that had been discussing new signalling systems and dialling plans for the industry. At issue is what kind of access the new companies will have to Telmex's local network, which is needed to connect the calls.

"The practical impact of Telmex refusing to participate in these forums is that it makes it difficult to determine how interconnection will work," said Mr Bob Lacy, Avantel's legal adviser. "Some of the groups that have won concessions need this information to finalise their investment plans and raise capital on the international markets."

Telmex officials could not be reached for comment.

Other concession holders said they believed Telmex was seeking to delay the onset of competition and expressed frustration at Telmex's slowness in establishing interconnection charges for its subsidiaries which, according to government guidelines, should have been published in September.

Telmex's internal interconnection fees are expected to set a benchmark for what it will charge its competitors for piggy-backing on to the local network.

Enersis pays $390m for control of Edesur

Enersis, the Chilean power investment firm, has bought the Argentine government's 39 per cent stake in Argentine utility Edesur for $390m, reports Reuter from Santiago. Enersis and its power distribution subsidiary Chilectra now control 64 per cent of Edesur, which becomes Enersis' second international subsidiary, after Peruvian distributor Edelnor.

■ A consortium headed by Endesa of Spain yesterday acquired a 60 per cent stake in Ventanilla, Lima's thermal power station, after giving a commitment to invest $120m in plant expansion, writes Sally Bowen in Lima. Ventanilla becomes the first Peruvian state-owned company to be transferred to private sector ownership via capitalisation.

Coca-Cola may sell two bottling units in Europe

By Roderick Oram, Consumer Industries Editor

Coca-Cola yesterday said it was in discussions to sell its French and Belgian bottling businesses to Coca-Cola Enterprises, its 44 per cent-owned subsidiary.

Such a sale would extend deeper into Europe the strategy Coca-Cola has followed in the US for a decade – focusing on soft drink sales and marketing while leaving manufacture to Coca-Cola Enterprises.

Coca-Cola spun off its US bottling interests into Enterprises and then sold a 56 per cent stake to the public in 1986. Enterprises distributes about 55 per cent of Coke's US volume with independent bottlers handling the balance.

Enterprises has spent most of the past 10 years building up its US business and only turned to Europe in 1993 when it bought Coca-Cola's Dutch bottling business.

"Coca-Cola Enterprises has done an excellent job improving efficiency in the Netherlands," Coca-Cola said.

France and Belgium are the only European countries where Coca-Cola owns a substantial proportion of its bottling. It owns some territories in Italy and it has a UK joint venture with Cadbury Schweppes, Coca-Cola & Schweppes Beverages.

Coca-Cola bought the French operations covering 90 per cent of the population from Pernod Ricard in 1989. It bought the Belgian business covering the whole country from Interbrew, the brewer of Stella Artois lager, in 1994.

Coca-Cola declined to give any financial figures for the two companies but Enterprises said their combined volumes were 235m cases in 1994.

AMERICAS NEWS DIGEST

Big vehicle makers cautious on output

General Motors and Ford have set cautious production plans for the early months of 1996, the latest signal that this year's slowdown in US auto sales is expected to continue. The two manufacturers' plans also reflect their efforts to shift more of their production from cars to light trucks – minivans, pick-up trucks and sports utilities – after stronger demand for these types of vehicle.

General Motors said it planned to produce 843,000 cars in the US, Canada and Mexico in the first three months of 1996, 12 per cent fewer than the same period this year. Its output of light trucks, meanwhile, is forecast to climb 5 per cent to 641,000. Ford forecast total production of more than 1.1m vehicles during the period, a decline of 4 per cent from this year's first quarter.

Chrysler, which has yet to disclose its forecast, derives a greater proportion of its sales from light trucks, and so is expected to set more optimistic production plans than its two bigger rivals. *Richard Waters, New York*

Heinz ahead in second quarter

H.J. Heinz, the international food group, increased net income 13.3 per cent from $140m to $158m in the second quarter ended November 1. Earnings per share were ahead from 37 cents to 42 cents. For the first six months, net income was up from $294m to $333m, and earnings per share from 78 cents to 88 cents.

In the second quarter sales rose 16 per cent to $2.29bn. Of the increase, 9 percentage points came from acquisitions such as the $725m purchase of the North American pet food business from Quaker Oats, and deals in Europe and India. Operating income was up 21 per cent. However, a 62 per cent increase in the net interest charge, from $38.3m to $62m, held back the rise in net income. *Maggie Urry, New York*

Luksic emerges as bank bidder

Chile's Luksic group was revealed as the interest behind a bid for a substantial shareholding in Banco de Santiago, the country's second-biggest commercial bank, news of which suspended trading in the bank's shares on Monday. The group is offering to buy up to 3.2bn shares, approximately 25.55 per cent of the total, at prices ranging from 12.25 pesos to 40 pesos per share. Analysts estimate that the bid will cost the group in the region of $170m for a 51 per cent stake. The offer is open from December 19 to January 31. *Imogen Mark, Santiago*

Cara plans sale to Boise arm

Cara, a Canadian-based airport caterer and national restaurant chain operator, plans to sell its office products distributor to Boise Cascade Office Products, part of the big Boise forest products group, for C$145m (US$105m). Cara bought Grand & Toy six years ago for C$139m, but competition is so fierce in Canadian office products distribution that Cara wisely chose to sell outright rather than attempt a strategic alliance, analysts said. *Robert Gibbens, Montreal*

Brazil smoothes banks' path to survival

Government is spending to assist takeovers and stability, reports **Jonathan Wheatley**

After two significant takeovers in the past month, many Brazilian banks are wondering which will be next in what is set to become a long-running series of mergers and acquisitions. A new government programme to facilitate these operations should speed the process.

No one doubts that the industry needs an overhaul. Easy earnings from high inflation were swept away with the government's economic reform plan of July 1994, which cut inflation from 50 per cent a month to less than 2 per cent. Many banks turned to credit operations to replace lost revenues, but government credit controls and a slowdown in the economy since the beginning of this year have decimated these earnings too.

"The recent growth of the sector was not connected with the needs of the economy," says Mr Cláudio Mauch, a director at the central bank. "It was driven by earnings from inflation. Those earnings have gone, and banks are not making enough from normal spread operations and charges for services to cover the loss."

Since 1988, when the government made it easier to start a bank, their number has grown from 111 to 245.

Mr Mauch says banks spent R$3.9bn (US$4bn) between 1992 and 1994 on technology, much of it used to extract the maximum possible earnings from inflation. With the loss of those earnings, many now face unmanageable fixed costs.

Banking in Brazil is becoming an altogether tougher business, at a time when economic stability offers great potential. But to grow in the medium term – and to ensure survival in the short term – the only option for many banks will be some kind of merger.

The most recent deal was the announcement on December 1 of the incorporation of Banorte by Banco Bandeirantes. Both are middle-ranking banks specialising in medium-sized business clients and "select" personal customers. Both seem in good health, although the quality of some of Banorte's assets is in doubt. Analysts say the combined group has enough critical mass for expansion in Brazil and overseas markets.

Less rosy was Unibanco's purchase in mid-November of Banco Nacional's retail operations, leaving a rump merchant bank and bad debts estimated at $4bn in the hands of the central bank. Both had been in the country's top half-dozen private-sector banks; both had presented sound third-quarter results. But Nacional, it turned out, had severe asset problems that did not show in its accounts.

This kind of problem has led to the liquidation of 17 banks since the middle of last year, with another eight under the control of the central bank. Among the latter is Banco Econômico, once the country's eighth-biggest private bank, which the central bank took over temporarily in August. Now, after months of uncertainty, it seems likely to be bought by a Brazilian bank, Excel, backed by an unidentified Swiss institution.

If the deal comes off, it will be in part because of a new government programme known as Proer, which provides cut-rate financing for expenses involved in mergers and acquisitions in the banking industry. The central bank has already lent Econômico R$1.9bn; it is expected to lend another R$1.6bn under Proer.

What remains of Banco Nacional has received R$2.4bn under the programme; a further R$1.5bn loan is likely. Banco Bandeirantes may also use Proer financing in its incorporation of Banorte, although the amount is likely to be much smaller as no bad debts are involved.

BRAZIL'S TOP 25 BANKS
Total assets at June 30 1995 (US$bn)

Banco do Brasil	84.9	Credireal	6.3
Caixa Econômica Federal	64.8	BNB	4.9
Bradesco	24.9	Banestado	4.6
Itaú	19.4	Sudameris	4.3
Bamerindus	17.6	Mercapaulo	3.7
Nacional	13.8	Bozano, Simonsen	3.6
Unibanco	13.3	BBA Creditanstalt	3.4
Econômico	8.7	BFB	3.4
Real	8.5	Citibank	3.4
Nossa Caixa	8.3	Votorantim	3.3
Banrisul	6.9	América do Sul	3.2
Safra	6.9	Boa Vista	3.1
BCN	6.8		

Source: Austin Asis

More loans are likely soon. Banco Rural, a medium-sized institution, is close to signing a deal to buy a smaller bank, Banco Mercantil de Pernambuco, which has been under central bank intervention since August.

Worries continue that more banks could be in difficulties. The worries, and their accompanying rumours, are intensified by the impossibility of telling in advance that a bank is about to go under.

Since the collapse of the apparently sound Banco Nacional, members of congress have been pressing for some kind of redress against auditors who give an ailing bank a clean bill of health; analysts say there are some problems – such as a mismatch of short-term liabilities against long-term assets – that auditors may notice but cannot report.

One bank that has been surrounded by rumour for many months is Bamerindus, the third-biggest private-sector bank. Critics say the bank is suffering from debts at one of its many non-banking interests, a paper mill called Impacel. The bank says Impacel's debt, predicted at R$490m at the end of 1995, is manageable and that it hopes a foreign partner will bring new capital to the plant early next year.

Bamerindus is now selling many of its non-core activities, although Impacel and the bank's agricultural businesses will remain. It recently sold its stake in steel mill CSN for about R$250m; other payments, including other asset sales and the purchase, by the international banking group HSBC, of a 6.14 per cent stake in the bank, bring the total received in the past month to R$511m. While rumours persist that Bamerindus is in trouble, analysts say its asset reallocation programme is enough to see it through any difficulties.

Many more mergers and acquisitions are expected in coming months. "There is room for dozens," says Giovanni Orlando of Swiss Bank Corporation, which advised the central bank on the sale of Econômico and brought Bandeirantes and Banorte together. "But we'll probably see seven or eight in the next six months. Brazilian banks need to be bigger and stronger, and there should be about half as many of them."

By introducing the Proer programme, the government has shown its determination to avoid a banking crisis. However, the programme has its cost: loans are made at interest rates well below Brazil's very high commercial rates, which means the central bank is not making the best use of capital, and they introduce liquidity into the system at a time when the government is running a tight monetary policy.

And there are other costs: the provisional decree that introduced Proer also removed the right of minority shareholders to sell their stakes at the most recent balance sheet price if they disagree with any transfer of control.

The government argues that the programme's cost is slight compared with its benefits.

"Proer is designed to help the banking system make a trauma-free transition from the old reality to the new," says Mr Mauch. "We want to avoid bank failures and any damage to local and foreign investments. We want to protect the popular economy."

One factor that will slow restructuring of the industry is that almost all Brazilian banks are family owned, and many of their controllers are the sons or grandsons of the founder.

"For most controllers there's the rational, logical option which says that a minority stake in a big, successful bank is worth more than a majority stake in a small, weak one," says Mr Pedro Paulo de Campos, a director at investment bank Oppenheimer in São Paulo. "On the other hand there's the family tradition. Not everyone acts rationally."

Northern keeps options open

By David Wighton

Northern Electric, the only regional electricity company to survive a hostile bid, said yesterday it was happy to remain independent, but did not have "a bunker mentality".

Mr David Morris, chairman, said the company had received several approaches but none had resulted in a serious proposal. "We have spoken to a number of people and if we can add more value by co-operation or collaboration we will do so."

He said there were economies of scale which could be realised by a merger with another rec. "But they are not so great that we cannot live without them."

Northern yesterday revealed a 7 per cent decline in pre-tax profits to £58.7m ($92.7m) in the six months to September 30, due largely to the impact of the new distribution price controls announced last August. Profits last time were £63.4m.

However, the company reaffirmed its objective to raise dividends by 7 per cent a year to 2000, announced with its 500p a share package of investor benefits in July.

Mr Morris said that, in spite of the payments to shareholders, it had sufficient resources to develop its non-regulated businesses. Yesterday, it announced it was paying £11m for Neste's half share in Sovereign Exploration, the gas production joint venture it formed with the Finnish oil group three years ago.

Northern's operating profits rose to £56.9m (£53.1m), on turnover 12 per cent lower at £429.8m thanks to a £5.7m reduction in staff costs and the elimination of last year's £11.1m restructuring charge. Pre-tax profits were struck after £2.9m of fees related to the special dividend and preference share issue.

Distribution profits were little changed at £35.5m (£36.1m), but supply profits fell to £10.1m (£12.8m), with margins slipping to 2.6 (2.8) per cent reflecting a loss of customers last April. But the company said it had since gained more customers without sacrificing margins.

Northern lights: David Morris, chairman, with Tony Hadfield, chief executive

Zeneca plans to boost R&D

Zeneca, the UK's third largest pharmaceuticals company, plans a sharp increase in its spending on drugs research and development and on partnerships with biotechnology companies, writes Daniel Green.

R&D spending for the whole company – £550m in 1995 – will rise faster than inflation, said Dr Peter Doyle, R&D director, speaking at the company's first R&D presentation to analysts since the 1993 demerger of Zeneca from ICI.

But the proportion of the funds that go to drugs, rather than the agrochemicals and specialities divisions, will increase from 62 per cent to "about two-thirds over the next two years."

At the same time, the company would double the amount spent on alliances with biotechnology companies. These have been arranged on an ad hoc basis, and will now be allocated a budget. Mr Doyle did not disclose a cash amount.

Zeneca concedes it has lagged behind other pharmaceuticals companies in creating networks of biotechnology company partnerships. Some rivals, including SmithKline Beecham, have more than 100; Zeneca has about a dozen.

Mr Doyle said the company had also restructured its R&D operations. As a result the proportion of drugs that passed medical trials demanded by regulators would increase and "be above the industry average".

The changes include streamlining of departments that now bridge international borders, and the creation of electronic versions of data complied during drug testing.

This would lead to new drugs being approved at the rate of about one a year for the 1990s.

Board changes expected at Pearson

By Christopher Price

Pearson is expected to announce boardroom changes today to accompany the media and entertainment group's trading statement.

Analysts expect the company to unveil at least two appointments which will bring a younger generation of executives on to the board.

Among the changes, Mr James Joll, finance director, 59, is likely to announce the date of his retirement. He is expected to be succeeded as finance director in the spring by Mr John Makinson, 41, currently managing director of the Financial Times newspaper, owned by Pearson.

There is also speculation that Mr Greg Dyke, chairman and chief executive of Pearson Television, will join the board. Analysts said such a move would help deflect City criticism that too few of the present board have operational control of the business.

It would also soothe concerns among some investors and analysts over the age of the Pearson board and the question of succession. Mr Frank Barlow, managing director, is 65, but is thought by analysts to be at least two years from retirement.

The moves would also underline the group's recent change in strategy from diversified conglomerate, embracing oil, vineyards, china and publishing into a more focused multi-media combine.

Neither Pearson nor Mr Makinson would comment yesterday. A former editor of the FT's Lex column, Mr Makinson left in 1986 to work for Saatchi & Saatchi. He formed Makinson Cowell, a management consultancy, in 1989, before returning to the FT as managing director last year.

Mr Dyke, 47, joined Pearson in January. A former chief executive of London Weekend Television, he was brought into Pearson to manage its television interests, which include Thames Television and Grundy Worldwide, and the consortium that won the licence for Channel Five.

Today's trading statement is being made to counter any criticism of unfair information being given during the group's traditional one-to-one meetings with analysts.

Analysts will be hoping for some positive news after August's interim results. Pearson reported a 27 per cent fall in profits after tough trading at several subsidiaries and restructuring charges.

However, little good news is expected from the education division, incorporating Addison Wesley, the US-based educational publisher, and Longman Education. Losses rose by 53 per cent to £15.9m on stagnant sales of £120.3m.

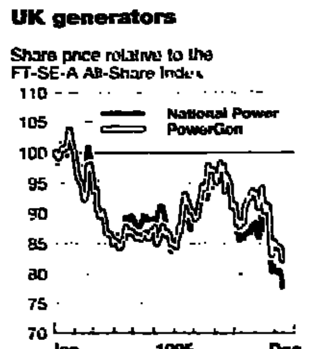
A slower rate of increase in paper prices could give scope for better news from the publishing business.

LEX COMMENT

UK electricity

UK generators

Share price relative to the FT-SE-A All-Share Index



Source: FT Extel

The market has not been kind to National Power and PowerGen. The generators' share prices fell when they announced bids for regional electricity companies: ironically, they fell even further when the bids ran into the sands of a Monopolies and Mergers Commission inquiry. Even yesterday's announcement that the regulator is to lift the cap on prices in the electricity "pool" failed to arrest the downward trend. Investors should not be too hopeful of a recovery. With the MMC inquiry dominating market sentiment, the shares are bound to languish in the short term. Even when the inquiry is over, the companies will be engaged in a cat-and-mouse game with the regulator. He wants more competition in peak-time generation and is unlikely to be satisfied until prices fall. Following the forced sale of some power stations, competition may do that on its own – in which case the generators' revenues will suffer. If, on the other hand, prices fail to fall, the shares will rightly be exposed to worries that the regulator could intervene again.

The shares have probably fallen far enough. For the foreseeable future, both companies are capable of long-term dividend growth ahead of the market average, even assuming a windfall tax and pressure on margins. Yet on the basis of their 1996 yield, both are trading on a premium to the market. Especially in the case of National Power, which is on a premium of about 20 per cent, this is likely to limit further share price falls.

DIGEST

Job losses at Scottish Power

A new round of job losses in the electricity industry was signalled yesterday as Scottish Power announced 350 redundancies following its acquisition of Manweb, and Northern Electric forecasted 800 job cuts over the next four years.

Scottish Power said it planned to cut the Chester-based electricity company's workforce by 350 within the next 12 months following its initial review of the business. Further cost cuts are expected to be announced in January.

Scottish Power also plans to move Manweb's head office to a smaller building in Chester.

Meanwhile, Northern Electric, the Newcastle-based supplier, said it planned annual cuts of almost 200 for the next four years, on top of the 600 jobs which went last year. Since privatisation, 1,700 have gone, reducing the workforce by more than 30 per cent.

The first 350 cuts announced yesterday relate mainly to head office functions, such as personnel and finance, which are duplicated with Scottish Power. *David Wighton*

Bemrose US buy

Bemrose, the advertising and promotional products supplier, has agreed with the owners of Nelson Marketing, of the US, to buy its business and assets for $15.38m (£9.7m).

Consideration for the acquisition includes repayment of shareholder loans, and is subject to adjustment depending on the level of net assets at December 31.

The purchase is to be satisfied by two instalments next January and February, with the balance of $2.5m payable in January 1999. Under a service agreement, one of the vendors, Mr Dick Nelson, is eligible to receive further consideration by way of a bonus of up to $7m payable in the year ending March 2001, depending on the company's profits over the five years to December 31 2000.

Creighton's falls

Extra costs incurred as a result of delays in receiving an order from a new North American customer meant interim pre-tax profits of Creighton's Naturally, the toiletries maker, fell from £773,000 to £507,000.

Turnover for the six months to September 30 rose by 10 per cent to £5.2m, including first time sales of £267,000 from the Crestol acquisition in July. Exports, mainly reflecting the North American contract, recovered in the period and a near 9 per cent increase reflected success in newly developed markets of South Korea and Thailand.

Cobham purchase

Cobham, the aerospace engineer, said its Chelton subsidiary was to acquire US-based Kevlin for $14.2m cash.

The purchase is subject to US government approvals and shareholders' consent, expected to be obtained by about the end of January.

Kevlin, which is quoted on Nasdaq, is based in Wilmington, Massachusetts, and is a leader in microwave dishes and antennas, such as those produced by Chelton's nearby Atlantic Microwave business.

Tenanted pubs side curbs Vaux

By Roderick Oram, Consumer Industries Editor

A sharp downturn in trading at Vaux Group's tenanted pubs undermined the Sunderland-based brewer's profits and cast City doubt on its strategy yesterday.

Pre-tax profits for the year to September 30 were up 9 per cent from £29.3m to £31.8m ($50.2m) thanks to a strong showing from Vaux's Swallow Hotels. But lower profits from tenanted pubs, the bulk of its estate, left earnings below City forecasts.

The shares fell 12p to 252p.

"Vaux has never looked quite so vulnerable as it does today," said one analyst. Its hotel chain was attractive to potential bidders, as were some of its better pubs.

Vaux had bet heavily on tenanted pubs in the early 1990s when the government forced national brewers to shed properties. It almost doubled the size of its estate by buying some 430 northern pubs hoping that increased beer volumes would help support its Sunderland and Sheffield breweries.

Trading profits from its 792 tenanted pubs fell 9 per cent to £14.6m. In contrast, profits from its 151 managed houses were up 12 per cent at £7.6m. At least 50 of the better tenanted pubs will be transfered to the managed estate.

Brewing and wholesaling profits rose 6 per cent to £3.6m.

Swallow Hotels lifted profits by 25 per cent to £19.7m.

Profits from care homes fell 14 per cent to £4.7m on an increased number of beds.

British Vita shares rise as restructuring proposed

By Motoko Rich

Shares in British Vita rose 14p to 216p yesterday as the foam and fibre group announced an acquisition, a sale and a restructuring programme.

The group is paying $40m for Olympic Products, a division of Cone Mills, of the US, to expand its specialist foam laminates business. Last year Olympic generated sales of nearly $100m, supplying foam and fibre components to the automotive, household and industrial industries.

The group also decided to sell a 50 per cent stake in its automotive fabric joint venture to its partner, Germany's Viktor Achter Group, for £12m. The venture conflicted with the business of some of its customers in the foam laminates division.

The sale follows the acquisition of Achter by Milliken & Co, the US textile group.

The group was also restructuring its German operations. Mr Sellers said this market was "stagnatory" because furniture makers who bought foam were purchasing their supplies from Eastern Europe, where labour costs were lower.

Mr Sellers said the group would take a £12m exceptional charge in 1995 to cover the costs of severance, asset write-downs and losses on disposals.

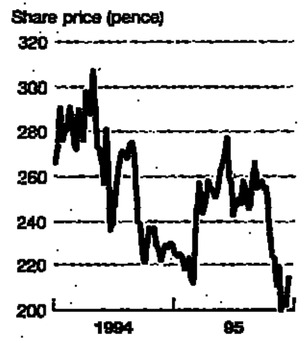
Analysts said the restructuring demonstrated that the group, which in September reported "unprecedented hostile market conditions", was acting positively to deal with its problems.

The group said trading conditions were slowly improving as raw material costs were showing signs of stabilisation.

Analysts left their 1995 profit forecasts, downgraded in September, unchanged at £45m.

British Vita

Share price (pence)



Source: FT Extel

British Land hit by charge

By Simon London, Property Correspondent

An unexpected charge to cover early redemption of a bond issue held British Land, the property investment company, to a 6 per cent increase in pre-tax profits, from £17.9m to £18.9m ($30m) in the six months to September 30.

The company, chaired by Mr John Ritblat, is poised to take full control of Broadgate Properties, the holding company for much of the Broadgate and Ludgate office developments in the City of London. Last month, British Land raised £222m through a placing and open offer to help finance this and other acquisitions.

Mr Ritblat said the company remained on track to buy the half of Broadgate it does not already own from the receiver to Rosehaugh, one of the companies which developed the site, for about £120m.

A final agreement is expected in the new year. British Land will then consolidate and refinance £800m of Broadgate Properties' debt.

The company took a £6.4m charge to cover early redemption of bonds maturing in 2038. Mr John Weston Smith, finance director, said the decision to redeem the bonds would reduce interest charges in future and help reduce the tax charge.

Mr Weston Smith added that the company was in negotiations which could lead to more than £100m of disposals over the next few months.

Putting a new spin on gold mining

The reopening of a Philippine mine could prove a bargain, writes **Kenneth Gooding**

A former England cricket player and an Australian entrepreneur have teamed up to revive the Masara gold mine on the verdant island of Minandao in the Philippines. It is not proving easy on their shoe-string budget, but they might end up with a great bargain.

For a minimal outlay they have gained access to the gold mine and its mill, which have a replacement cost of $40m and will be capable of producing about 100,000 ounces of gold next year, plus at least 1m ounces of gold resources in the ground. They are also responsible for the company town with its population of 7,000, a hospital, schools and other infrastructure.

Behind the project is Mr Frank Lubbock, an engineering graduate from the Kalgoorlie School of Mines in Western Australia. Over the past five years he has built up a portfolio of gold and copper properties in the Philippines via his local company, Base Metal Mineral Resources (BMMR).

He arrived before the rush of international mining companies and acquired assets cheaply from a Philippines mining industry in deep trouble because of low metal prices, political interference and over-borrowing.

Masara, which between 1981 and 1990 produced 400,000 ounces of gold, shut down in 1991 because of a long strike. The property owner, Apex Mines, had ceased to pay the wages because of financial problems elsewhere. Mr Lubbock won a seven-year operating agreement (with an option to extend for another seven years) from Apex, a Philippine public company, allowing the mine to be reopened in return for $40,000 a month and royalties on the gold produced.

Last year he linked with Mr Phil Edmonds, the former England spin bowler turned businessman, who was searching for an investment for a publicly listed "shell" company he controlled called London Fiduciary Trust, now traded on London's alternative investment market (Aim). They were brought together by Mr Martin Buckingham, now LFT's director of corporate planning and development, who was working with Mr Lubbock. He had been at Cambridge University with Mr Edmonds and was best man at his wedding.

LFT took a 40 per cent interest in BMMR and raised $9m, part of which is being used to double production at Masara. The mine poured its first gold in November 1994 and this year will produce 8,000-10,000 ounces in spite of many problems. A four-month delay in reconnecting the mine to the national power grid was followed by the wettest wet season for decades.

Mr Ross Cooper, another Australian mining engineer and LFT's general manager for development, says Masara is back on track, although more needs to be done to convince local miners and managers to change their traditional ways. When he persuaded the Filippinos to change their technique for underground mining, production jumped from one tonne per man shift to 12 tonnes.

Apex employed about 2,000 at Masara. LFT has about 650 and Mr Buckingham says this will fall by about a third.

The mine is about 30km from Tagum and sits at the end of a deep valley, surrounded by mahogany trees and palms. Some mining takes place at 1,300 metres.

The delays at Masara have left LFT with little money to push on with the other prospective mining projects in the Philippines. Mr Buckingham says that next year cash flow from Masara would be positive. Output should be about 90,000 ounces rising to 130,000 in 1997 at estimated cash costs of $230-$240 an ounce. By 1997-98 other projects should be under way to help LFT produce 250,000 ounces a year.

Mr Lubbock, who has a 26 per cent stake in LFT, says he is reluctant to raise more money in present market conditions. Next year LFT aims to move to a full London stock exchange quote and will also apply for a listing in Toronto.

He accepts the company's name is no help: London Fiduciary Trust used to be a leasing organisation. He has been doing market research in North America and investors there like the suggested alternative: Asian Goldfields.

Lord Hanson receives £12,000 more

Hanson chairman, Lord Hanson, received pay and benefits of £1.374m last year, a rise of just £12,000 on the previous year.

Mr Derek Bonham, chief executive, received £1.123m (£1.113m), including a salary of £900,000, a bonus of £148,000 a deferred bonus of £44,000 and other benefits amounting to £31,000.

The total package of Mr Anthony Alexander, UK chief operating officer, fell to £480,000 (£601,000) including a £62,000 bonus.

However, Mr Bill Landuyt, who was promoted to chief executive of Hanson's US operations during the year, saw his total rise to £554,000 (£441,000).

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Berkeley	6 mths to Oct 31	146.3	(128.7)	19	(17.8)	18.4	(15.4)	2.3	Feb 14	2.1	-	7.75
Bradstock	Yr to Sept 30	33.4	(32.7)	6.09♠	(8.22)	6†	(8.9)	4.1	Apr 9	4.1	5.7	5.7
British Land	6 mths to Sept 30	108.7□	(83.2□)	18.9	(17.9)	2.5†	(2)	2.78	Feb 23	2.64	-	8.12
Cray Electronics	6 mths to Oct 31	129	(135)	14.6L♠	(10.1♠)	6.3L	(3)	nil	-	1	-	2.5
Creighton's	6 mths to Sept 30	5.2	(4.7)	0.507	(0.773)	7	(11)	2.2	Feb 8	2.2	-	7.7
Euclidian	6 mths to Sept 30	0.561♦	(-)	0.306	(-)	1.03	(-)	1	Jan 23	-	-	-
Eurocopy	Yr to Sept 30	24.1	(25.6)	4.22	(3.61)	5.68	(4.87)	1.55	Apr 6	1.4	2.3	2
Halma	6 mths to Sept 30	80.8	(70.6)	14.4	(12.5)	3.61	(3.15)	1.008	Feb 12	0.84*	-	2.136*
Hunters Armley	Yr to Sept 30	49.8	(41.1)	4.07	(3.46)	10.51†	(10.01)	3	Feb 23	2.68	4.5	4
Northern Electric	6 mths to Sept 30	429.8	(490.7)	58.7♠	(63.4)	6.8‡	(43.8)	12	Feb 19	9.6	-	33
Oceana	6 mths to Sept 30	7.36	(6.68)	1.25	(1)	10.42†	(8.62)	0.75	Jan 11	0.625	-	2.875
Pillar Property	6 mths to Sept 30	13.8	(11.2)	1.12♠	(0.034)	1	(0.1)	1.5	Jan 12	-	-	3
Precoat Intl	6 mths to Oct 31	23.1	(19.2)	1.56	(1.26)	7.16†	(6.01)	2.2	Jan 26	-	-	0.25
Protean	6 mths to Sept 30	32.7	(23.8)	3.94	(2.72)	6.97†	(5.3)	1.6	Feb 15	1.35	-	5.6
Sheriff §	Yr to Sept 30	23.8	(20.2)	4.46	(3.58)	30.3	(23.9)	4.75	Feb 13	4	7	5.75
Sliema	Yr to Sept 29	16.7	(17.1)	0.033	(1.02)	0.3	(8)	1.3	Feb 28	2.6	2.6	3.9
Southend Property	6 mths to Sept 30 ★	9.12	(9.28)	1.54L♠	(1.83♥)	1.92L	(1.11)	0.88	Feb 29	0.84	-	2.52
Stakis	Yr to Oct 1	173.4	(145.9)	25.8♥	(20.2)	4.93†	(4.27)	1	Apr 12	0.9	1.75	1.55
Stewart & Wight	6 mths to Sept 30	-	(-)	0.181	(0.162)	156.91	(137.31)	-	-	-	-	140
Triton §	Yr to Sept 30	12	(12.1)	1.81	(2.02)	10.82	(12.41)	3.2	Feb 19	3.1	4.7	4.5
Toad Φ	6 mths to Sept 30	0.49	(0.18)	0.8L	(–)	–	(–)	–	-	–	–	–
Vaux	Yr to Sept 30	258.9	(243.5)	31.8	(29.3)	19.26	(17.88)	6.75	Feb 7	6.5	10.2	9.85

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Baring Emerging ☆	6 mths to Oct 31 ⁂	72	(65)	0.309	(0.41L)	0.25	(0.33L)	-	-	-	-	nil
Dunedin Smaller	Yr to Oct 31	350.3	(315.1)	1.31	(1.51)	7.78	(8.96)	6	Jan 26	6	9	9
Turkey	Yr to Oct 31	283.61	(219.85)	0.29	(0.188)	2.94	(1.91)	2.2	Feb 23	2	2.2	2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. □Gross rental income. †On increased capital. ♦Investment income. *Adjusted for scrip issue. ‡On reduced capital. §USM stock. ★Comparatives restated. ΦAim stock. ☆US currency. ⁂Comparatives for 6 months to January 31 1995.

COMMODITIES AND AGRICULTURE

Emu membership 'would benefit UK agriculture'

By Alison Maitland

Agriculture will largely benefit if the UK joins European monetary union, the National Farmers' Union of England and Wales said yesterday.

It pointed out in a discussion document that the farming sector differed from other EU industries because it was managed by a common policy and had its own "green" exchange rate.

"We felt the balance of advantage for agriculture was to be inside Emu," said Mr Martin Haworth, head of international affairs.

Opponents of Emu argue that a major risk lies in abandoning the safety valve of exchange rate adjustment. But the union said the UK agricultural industry had not benefited in the long run from devaluations.

The 1992 devaluation following sterling's withdrawal from the exchange rate mechanism has boosted farm incomes considerably. But Mr Haworth doubted that the benefits would continue, pointing out that input costs were starting to rise.

There could be economic and political drawbacks for the farming industry if Britain stayed out of Emu, he said. Under a two-tier system, "we fear there would be increasing pressure from countries inside [Emu] to protect themselves against competitive devaluations by countries outside it".

This was already happening, he said. Since abolition of the "switchover" mechanism in June, strong currency countries alone were protected against the depressing effect on support prices of revaluations.

Moreover, countries such as France and Germany planned national aid to farmers to counter the effect of devaluations by their trading partners.

Politically, failure to join Emu would mean the UK would continue to lose credibility with its partners, Mr Haworth said. "In agriculture we do depend still, and will continue to depend on the ability of our government to argue its case."

The document said "the long term survival of a common agricultural policy may depend on (Emu)." Cynics might call this a good reason for not joining. However, Mr Haworth said a common policy, albeit reformed, was necessary for an industry with so much government involvement.

"We believe we need a common policy to maintain the single market. Left to our own devices, we might have a much lower level of government involvement, but other countries wouldn't."

Pulp price downturn 'short-term'

By Alison Maitland

The downturn in the pulp and paper market is a short-term correction, according to Mr Dermot Smurfit, deputy chairman of Jefferson Smurfit, the world's largest producer of paper-based packaging.

Mr Smurfit gave an upbeat assessment at a Financial Times conference on world pulp and paper in London yesterday, which contrasted with gathering gloom in the sector.

Demand and prices have weakened and European paper shares have fallen 30 per cent since June amid fears of a repeat of the boom and bust cycle that has dogged the industry. Some analysts argue that paper producers have been pricing themselves out of the market.

Mr Smurfit said: "I believe this to be a short-term correction as the market readjusts following the dramatic developments of the last six years and seeks a price level which can be sustained over a long period".

He pointed out that much growth was taking place through acquisitions and alliances, not new capacity, and that producers were cutting output to maintain prices. He predicted demand would revive and 1996 would be "a strong year".

In the longer term, worldwide consumption of paper and board was forecast to increase from 270m tonnes this year to 480m tonnes by 2010 and "explosive" growth in demand from the Far East encouraged "an optimistic scenario".

But Mr Smurfit also warned of the dangers of overcapacity as the conference heard that new Indonesian pulp mills would add 1.4m tonnes to capacity over the next four years.

Mr Roger Wright, managing director of Hawkins Wright, a paper research and consultancy agency, said this was more than total current demand from Asia, excluding Japan, for mixed hardwood pulps.

He said pulp producers needed to cut production "drastically" to maintain prices. "There are two scenarios. Either everyone reduces production and prices stay stable, or they produce at higher rates and prices crash."

Capacity utilisation, now down to about 83 per cent from full capacity in the third quarter, should be cut to 80 per cent. "All market pulp producers need to lose a week's production a month for the next six months."

If that happened, "the crisis will be averted, and we'll all live happily every after, until the next crisis".

The industry had to innovate. "We must cast off the image of being a basic brown box industry," he said.

Sydney exchange to launch wheat futures

By Nikki Tait in Sydney

The Sydney Futures Exchange is to launch a wheat contract early in the New Year. The move is one of the first it has made since announcing an ambitious plan to establish itself as a "regional commodity trading centre" three months ago.

At that stage, the exchange said it believed that Sydney could act as a focal trading point for the Asia-Pacific region, particularly given Australia's status as a major producer and exporter of raw commodities.

The exchange has already established a link with the New York Mercantile Exchange, under which crude oil futures can be traded, and earlier this year it launched a wool contract. But its long term objective is more ambitious: to establish a broad range of commodity contracts, both in the mineral and rural areas.

Unveiling details of the wheat contract, the SFE said that it would announce a date for its listing early next year.

The contract size will be 50 tonnes, and contract months will be January, March, May, July, September an November, up to 18 months ahead. Standard delivery will be to GrainCorp's Newcastle terminal, with other GrainCorp sites in New South Wales, as alternatives. Quotations will be in Australian dollars per tonne.

LME WAREHOUSE STOCKS
(As at Monday's close) tonnes

Aluminium	-2,075	to 569,375
Aluminium alloy	+840	to 58,260
Copper	+7,925	to 238,050
Lead	-4,350	to 137,600
Nickel	-408	to 45,870
Zinc	-3,100	to 677,100
Tin	-10	to 12,080

Dominion loses nickel project partner

By Nikki Tait in Sydney

North, the large Australian resources group, which shortened its name from North Broken Hill Peko, yesterday surprised the markets by saying it would not proceed with the A$470m development of the Yakabindie nickel deposit in Western Australia.

However, Mr Ken Dredge, managing director of Dominion Mining, the Perth based group that sold North an option over the project 18 months ago, insisted that Yakabindie – scheduled to produce about 22,000 tonnes of nickel a year and add about 2.5 per cent to world output of the metal – would eventually go ahead, either with North or with another partner.

The option would have enabled North to acquire an interest of between 50 and 80 per cent of Yakabindie, at a price of A$1m (US$736,000) per percentage point. The option payment was due by end-December.

In a statement yesterday, North said it was satisfied that there was an indicated and inferred resource of 269.4m tonnes of ore, grading 0.53 per cent nickel. But it said that its assessment of "the financial returns arising from presently projected costs and revenues, and the risks associated with possible project enhancement to improve these returns do not justify the option payment of A$1m per percentage point for participation in the project".

The two companies have spent about A$9.4m assessing the development possibilities. Mr Dredge pointed out that North picked up 75 per cent of the bill and now all data – including that relating to the Activox hydrometallurgical process to be used to produce high purity nickel at Yakabindie – reverted to Dominion.

North's decision to pull out sent Dominion shares tumbling. They fell about 18 per cent when markets opened and closed down seven cents at 25 cents.

Dominion recently sold the bulk of its gold assets to Plutonic Resources, saying it would focus on Yakabindie and on a prospective greenfields project in South Australia. Mr Dredge insisted that "the Yakabindie project will be an economic 20-years-plus venture. Over time we have had discussions with some other parties and these discussions will now be progressed, while contacts with other likely partners and possible further discussions with North will also be pursued".

If North is not involved in the project, however, a question mark will be left hanging over the Melbourne-based company's 14.8 per cent shareholding in Dominion. This was bought some months after the option, at an average price of 44 cents a share, or A$28m in total. At the time, the purchase was viewed as an attempt to stabilise the Dominion share register as a former bidder for the group exited.

In its statement, North said it had "no present intention" of selling the holding – on which, at current share price levels, it is showing a significant loss. However, there is little long-term strategic logic to the holding, without the nickel project.

North shares closed one cent lower at A$3.69.

Dole puts banana campaign on hold

By Afshin Molavi in Washington

Mr Bob Dole, US Senate majority Leader, has temporarily shelved a plan to impose trade sanctions on Costa Rica and Colombia for their co-operation with European Union banana import quotas that he deems "unfair" and "illegal".

Mr Dole surprised fellow congressmen recently by announcing – amid the budget battle over such issues as Medicaid, welfare reform, and Medicare – that trade sanctions for "unfair banana policies" were his "top priority". Mr Dole is also reported to have tried to persuade House speaker Mr Newt Gingrich to back his initiative while returning from Israeli prime minister Yitzhak Rabin's funeral on the presidential plane.

Mr Dole objects to the EU banana regime, which gives to exporters from former European colonies in Africa and the Carribean preference over cheaper Latin American producers, and the later concessionary agreement with Costa Rica and Colombia establishing a quota for those two nations.

"Dole has temporarily put bananas on the back burner," a member of the Congressional Republican staff said, "but that doesn't mean he won't be back on top of the issue later." Mr Dole's moves have prompted heated criticism from ethics watchdogs and fellow Congressmen who see his close relations with Mr Carl Lindner, president of Chiquita Brands International and a prominent Dole campaign financier, as the reason behind Dole's efforts.

Mr Dole regularly uses Mr Lindner's corporate jets for campaign travel.

Chiquita officials claim that the EU banana regime and the later quota agreement brokered with Costa Rica and El Salvador discriminates against Chiquita bananas, resulting in major losses for the Cincinnati-based company.

"Senator Dole has taken this position because it is right for America," one of Mr Dole's aids said, "and to suggest any other reason is totally absurd."

But Mr Fred Wertheimer, editor-in-chief of government watchdog Common Cause magazine, disagrees, arguing that it is precisely Mr Lindner's generous campaign contributions that fuels Dole's efforts.

Dole critics also argue that if Chiquita jobs were to be lost it would be Colombian jobs, not American. Chiquita counters that headquarters jobs may soon have to be cut if losses continue.

Chiquita says that "Colombia and Costa Rica are conspirators with the EU and knowingly compounded the banana regime's illegalities". In a detailed four-page press release issued by the company, they said that the agreement was "specifically designed to cause more trade restriction, discrimination and harm, not only to US interests, but to the interests of most Latin-American producing countries". Ecuador, Panama, Honduras, Guatemala and Mexico have condemned the regime.

Chiquita's two main US competitors, Dole (no relation to the Senator) and Del Monte, have been quiet on the issue as they have larger investments in the favoured Carribean area.

The Clinton administration agrees with Mr Dole that Europe's banana policy is "unfair" but they do not advocate trade sanctions on such key allies as Costa Rica and Colombia.

Such a move would compromise the Americas free trade policy of the administration and, could, some officials fear, unleash a new wave of Colombian drug-running into the US as a retaliatory measure. Colombian president Ernesto Samper hinted in a recent speech that trade sanctions could cause increased drug activity as legitimate businesses falter.

The United States Trade Representative's Office will be meeting European officials next Monday concerning its complaint against the banana regime lodged with the World Trade Organisation.

Senator Dole is expected to be watching those meetings closely, looking for the next opportune moment to push the trade sanctions issue.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1645.5-46.5	1679-80
Previous	1644-45	1679-80
High/low		1685/1675
AM Official	1647-48	1681-81.5
Kerb close		1675-76.5
Open int.	232,206	
Total daily turnover	31,429	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1410-20	1450-60
Previous	1410-20	1450-60
High/low		1460/1450
AM Official	1415-25	1455-60
Kerb close		1450-60
Open int.	5,043	
Total daily turnover	771	

■ LEAD ($ per tonne)

Close	736-37	733-34
Previous	744-45	734-35
High/low	747/736	745/720
AM Official	746-47	741-42
Kerb close		720-1
Open int.	34,172	
Total daily turnover	8,396	

■ NICKEL ($ per tonne)

Close	8170-80	8295-300
Previous	8220-30	8345-50
High/low	8230	8370/8230
AM Official	8231-32	8340-45
Kerb close		8220-30
Open int.	43,969	
Total daily turnover	9,211	

■ TIN ($ per tonne)

Close	6375-85	6380-85
Previous	6380-90	6380-85
High/low	6440	6460/6350
AM Official	6440-45	6435-36
Kerb close		6350-60
Open int.	16,141	
Total daily turnover	5,909	

■ ZINC, special high grade ($ per tonne)

Close	1041-42	1066-67
Previous	1037-38	1062-63
High/low	1049/1046	1073/1063
AM Official	1048-49	1072-72.5
Kerb close		1063-4
Open int.	83,673	
Total daily turnover	24,263	

■ COPPER, grade A ($ per tonne)

Close	2955-60	2688-90
Previous	2994-95	2694-95
High/low	2987/2985	2708/2686
AM Official	2968-69	2702-3
Kerb close		2687-88
Open int.	161,269	
Total daily turnover	77,102	

■ LME AM Official £/$ rate: 1.5350
LME Closing £/$ rate: 1.5310

Spot: 1.5317 3 mths: 1.5292 6 mths: 1.5264 9 mths: 1.5236

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	134.10	-1.05	135.30	133.65	1,971	6,657
Jan	128.40	-1.25	129.50	128.30	229	2,479
Feb	124.80	-1.40	125.35	125.30	12	972
Mar	121.55	-1.30	122.90	121.40	5,251	15,314
Apr	120.05	-1.35	121.40	121.40	15	481
May	118.55	-1.35	119.90	118.50	671	2,763
Total						

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	388.30-388.70		
Opening	388.10-388.50		
Morning fix	388.45	253.237	454.787
Afternoon fix	388.80	253.620	456.723
Day's High	388.80-389.20		
Day's Low	388.10-388.50		
Previous close	389.30-389.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.71	6 months	2.87
2 months	2.75	12 months	3.05
3 months	2.85		

Silver Fix	p/troy oz.	US cts equiv.
Spot	340.65	522.75
3 months	345.35	529.05
6 months	349.80	534.85
1 year	358.90	546.80

Gold Coins	$ price	£ equiv.
Krugerrand	390-391	254-255
Maple Leaf	399.70-402.20	
New Sovereign	90-92	58-60

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	388.2	-0.3	389.1	388.5	134	1,407
Feb	389.8	-0.2	391.0	389.5	17,219	59,568
Apr	391.8	-0.2	393.0	391.5	984	14,802
Jun	393.9	-0.1	395.0	393.7	99	21,121
Aug	395.9	-0.1	-	-	107	4,236
Oct	398.1	-0.1	-	-	14	3,608
Total						

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jan	415.5	-3.0	418.5	415.1	2,297	14,257
Apr	417.0	-2.5	419.5	417.0	528	4,803
Jul	418.3	-2.8	417.5	417.5	13	1,890
Oct	419.7	-3.4	420.0	420.0	1	1,024
Jan	420.7	-3.4	423.5	423.5	-	5
Total					2,838	21,979

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	136.20	-1.35	136.00	135.00	193	163
Mar	137.70	-1.20	139.50	137.70	1,283	5,373
Jun	139.10	-1.20	-	-	186	361
Total					1,298	5,897

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Dec	512.9	-5.4	520.0	510.0	115	172
Jan	514.2	-5.5	521.0	513.0	74	39
Mar	520.0	-5.5	527.5	517.0	7,458	60,902
May	524.6	-5.5	532.0	522.0	87	10,113
Jul	528.9	-5.5	535.0	528.0	38	6,770
Sep	533.4	-5.4	539.0	530.0	85	8,571
Total						

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	18.75	+0.09	18.79	18.48	50,856	70,248
Feb	18.45	+0.08	18.51	18.22	35,339	67,757
Mar	18.22	+0.09	18.25	18.02	13,271	38,819
Apr	18.03	+0.08	18.06	17.86	7,032	20,467
May	17.91	+0.09	17.91	17.75	3,747	11,645
Jun	17.75	+0.05	17.78	17.64	3,687	25,242
Total					132,066	335,062

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	17.61	+0.09	17.64	17.33	24,108	27,059
Feb	17.31	+0.07	17.34	17.05	20,065	60,440
Mar	17.06	+0.06	17.08	16.86	4,550	21,655
Apr	16.87	+0.08	16.89	16.70	1,371	9,211
May	16.71	+0.08	16.73	16.57	660	5,162
Jun	16.58	+0.08	16.58	16.45	188	9,299
Total					47,868	145,100

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	56.90	+0.15	57.00	55.70	32,849	45,469
Feb	55.40	+0.22	55.50	54.35	20,764	39,750
Mar	53.05	+0.17	53.15	52.25	8,103	18,727
Apr	50.90	+0.27	50.90	50.25	2,087	5,203
May	49.15	+0.17	49.20	48.80	613	6,078
Jun	48.45	+0.12	48.45	48.00	503	9,045
Total					63,287	139,339

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	170.50	-	168.00	164.75	8,341	7,218
Jan	167.00	-3.75	168.25	165.50	16,863	34,196
Feb	163.50	-3.25	164.50	162.75	4,642	15,982
Mar	159.50	-3.00	161.00	159.50	1,858	6,104
Apr	156.50	-2.50	157.50	156.25	916	2,434
May	154.75	-	-	-	146	1,209
Total					32,980	79,090

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	2.225	+0.032	2.240	2.155	17,254	38,379
Feb	2.130	+0.006	2.139	2.090	9,878	27,756
Mar	1.963	+0.008	1.970	1.935	3,654	18,100
Apr	1.815	+0.005	1.825	1.795	1,060	12,845
May	1.760	+0.005	1.785	1.745	1,229	10,106
Jun	1.750	+0.006	1.760	1.740	346	6,982
Total					35,110	184,109

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	55.50	+0.81	55.75	54.35	12,639	24,591
Feb	54.90	+0.58	55.00	53.85	6,160	21,021
Mar	54.40	+0.68	54.40	53.35	2,250	10,850
Apr	56.30	+0.40	56.35	55.70	516	5,826
May	56.00	+0.33	56.00	55.40	300	4,242
Jun	55.25	+0.18	55.05	54.80	59	2,193
Total					21,984	71,912

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	123.80	-0.35	124.40	123.90	147	2,094
Mar	125.70	-0.10	126.50	125.50	338	2,408
May	127.70	-0.15	128.50	127.60	321	3,317
Jul	129.70	-0.10	130.00	129.65	6	365
Sep	112.25	-	-	-	15	72
Nov	114.00	-0.25	114.00	114.00	55	797
Total					872	9,054

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	514.00	-4.50	518.50	510.00	1,461	4,833
Mar	506.50	-3.00	512.00	505.50	15,344	56,759
May	467.25	-3.50	471.50	466.50	1,522	7,409
Jul	430.25	-5.50	435.00	430.00	5,385	25,361
Sep	430.75	-5.25	435.00	430.50	324	4,455
Dec	436.50	-5.75	440.50	436.50	160	1,950
Total					24,200	108,824

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	337.75	-1.75	339.75	337.50	6,954	17,220
Mar	346.50	-0.75	348.25	345.50	51,693	299,928
May	348.25	-0.75	350.00	347.00	8,838	58,759
Jul	344.00	-0.25	345.75	343.25	6,529	62,940
Sep	299.75	-0.75	300.75	298.75	2,863	12,771
Dec	288.25	+0.5	289.00	287.00	4,120	32,454
Total					81,007	488,247

■ BARLEY LCE (£ per tonne)

Jan	114.30	+0.85	113.70	113.45	22	581
Mar	116.00	+0.50	116.50	116.00	26	835
May	117.15	-	-	-	-	402
Sep	109.50	-	-	-	2	20
Nov	111.65	-0.85	-	-	-	16
Total					48	1,854

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jan	716.00	+1.5	719.00	712.00	30,468	76,660
Mar	724.75	+1.75	728.00	720.50	14,798	55,479
May	727.25	+2.25	729.50	722.25	3,451	16,590
Jul	727.00	+1.75	729.50	722.25	5,333	22,317
Aug	722.00	+1.25	724.00	719.25	496	1,761
Sep	703.50	+2	705.50	700.50	267	1,825
Total					58,113	193,678

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Dec	24.78	+0.08	24.88	24.59	537	1,062
Jan	24.87	+0.12	24.98	24.66	8,325	31,091
Mar	25.21	+0.15	25.30	24.97	4,040	27,391
May	25.52	+0.13	25.62	25.30	1,139	12,024
Jul	25.72	+0.12	25.80	25.52	928	9,123
Aug	25.78	+0.13	25.90	25.62	319	2,185
Total					15,677	87,560

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Dec	224.9	-	225.8	224.3	6,440	4,144
Jan	227.0	-	227.9	226.2	18,678	37,264
Mar	230.2	+0.1	231.2	229.2	9,360	43,843
May	229.8	+0.3	230.5	228.5	2,813	11,895
Jul	229.2	+0.2	230.1	228.5	1,974	11,467
Aug	226.7	+0.3	227.0	226.0	834	1,629
Total					40,291	114,940

■ POTATOES LCE (£/tonne)

Mar	270.0	-	-	-	-	-
Apr	261.5	+3.0	263.0	258.0	29	1,216
May	300.0	-	-	-	-	6
Jun	325.0	-	-	-	-	-
Total					29	1,224

■ FREIGHT (BIFFEX) LCE ($10/index point)

Dec	1650	+10	1650	1650	15	207
Jan	1670	+30	1670	1650	199	1,415
Apr	1633	+23	1635	1620	69	1,521
Jul	1430	+20	1430	1425	21	605
Oct	1505	+11	-	-	2	163
Jan	1524	+7	-	-	-	21
Total					322	4,115

	Close	Prev
BFI		1618

FUTURES DATA
All futures data supplied by CMS.

Minor Metals
European free market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). **Antimony:** 99.6%, $ per tonne, 3,300-3,400 (3,475-3,600). **Bismuth:** min. 99.99%, tonne lots 3.95-4.25. **Cadmium:** min. 99.95%, 180-200 (195-210) cents a pound. **Cobalt:** MB free market, 99.8%, 32.00-33.50; 99.3%, 28.40-28.80. **Mercury:** min. 99.99%, $ per 76 lb flask, 150-170. **Molybdenum:** drummed molybdic oxide, 4.30-4.55. **Selenium:** min 99.5%, 3.80-4.50. **Tungsten ore:** standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 60-68. **Vanadium:** min. 98%, cif, 3.10-3.25. **Uranium:** Nuexco exchange value, 10.00

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	900	-11	914	911	21	72
Mar	941	-1	943	936	3,061	38,655
May	960	-1	963	956	500	14,575
Jul	978	-1	982	976	119	6,918
Sep	998	-1	1002	996	650	27,741
Dec	1008	-1	1010	1008	71	7,149
Total					4,932	116,054

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1295	-9	1314	1314	6	152
Mar	1310	-5	1323	1308	4,887	37,643
May	1330	-3	1339	1329	1,779	13,260
Jul	1350	-3	1360	1353	51	5,200
Sep	1371	-3	1381	1374	86	9,937
Dec	1396	-3	1399	1399	17	8,073
Total					6,862	78,830

■ COCOA (ICCO) (SDR's/tonne)

Dec 11	Price	Prev. day
Daily	945.79	940.81

■ COFFEE LCE ($/tonne)

Jan	2196	+63	2210	2135	2,243	13,003
Mar	1883	+26	1896	1840	2,734	11,891
May	1785	+13	1810	1760	579	5,067
Jul	1736	+8	1755	1712	243	3,204
Sep	1720	+30	1742	1710	199	741
Nov	1703	+27	-	-	17	261
Total					5,709	34,169

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	105.80	-0.10	106.60	105.55	20	555
Mar	102.65	+0.30	104.30	101.25	3,665	19,509
May	101.30	+0.30	102.80	100.20	516	3,665
Jul	101.20	+0.30	102.25	100.30	286	1,262
Sep	101.20	+0.30	102.00	99.70	65	723
Dec	101.20	+0.30	100.40	99.70	53	554
Total					4,616	26,478

■ COFFEE (ICO) (US cents/pound)

Dec 11	Price	Prev. day
Comp. daily	101.24	101.79
15 day average	108.57	109.76

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

Jan	13.25	-	-	-	-	-
Mar	10.90	-	-	-	-	-
May	11.19	-	-	-	-	-
Jul	11.19	-	-	-	-	-
Total						

■ WHITE SUGAR LCE ($/tonne)

Mar	353.2	+1.4	353.8	351.8	688	15,073
May	344.1	+1.1	345.0	342.6	294	6,833
Aug	335.4	+1.6	335.0	334.0	17	3,862
Oct	307.8	+1.8	306.5	306.5	3	3,258
Dec	301.3	+1.6	301.0	301.0	1	1,605
Mar	298.5	+1.3	298.3	297.2	29	285
Total					1,055	31,121

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	11.46	+0.08	11.48	11.39	9,716	85,582
May	11.10	+0.09	11.11	11.01	2,305	24,623
Jul	10.53	+0.05	10.55	10.48	1,130	16,639
Oct	10.27	+0.01	10.32	10.26	601	18,475
Mar	9.99	+0.01	10.07	10.06	52	10,843
May	9.90	-0.01	9.98	9.90	28	1,356
Total					216	9,501

■ COTTON NYCE (50,000lbs; cents/lbs)

Mar	84.65	-1.56	86.50	84.25	4,038	25,080
May	84.17	-1.41	85.75	83.60	848	9,641
Jul	83.60	-1.27	85.13	83.46	404	6,817
Oct	80.40	-0.34	80.70	79.90	91	1,587
Dec	77.85	-0.15	78.24	77.70	292	9,218
Mar	78.58	-0.20	79.10	79.10	11	784
Total					5,711	54,373

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jan	119.40	-8.00	126.75	118.00	462	16,705
Mar	125.45	-5.00	129.60	125.45	660	6,850
May	127.75	-5.00	131.75	127.75	29	1,492
Jul	130.00	-5.00	130.00	130.00	1	649
Sep	132.25	-5.00	-	-	130	926
Nov	139.70	-5.00	-	-	10	510
Total					1,339	28,061

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Dec 12	Dec 11	month ago	year ago
2135.5	2136.5	2171.4	2181.7

■ CRB Futures (Base: 1967=100)

Dec 11	Dec 8	month ago	year ago
245.34	245.17	-	-

■ GSCI Spot (Base: 1970=100)

Dec 11	Dec 8	month ago	year ago
193.48	194.45	-	176.22

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	67.225	-0.450	67.650	67.200	2,371	9,168
Feb	66.650	-0.625	67.350	66.625	7,015	31,975
Apr	67.050	-0.475	67.525	66.900	1,589	15,772
Jun	62.775	-0.400	63.200	62.700	1,006	8,093
Aug	61.425	-0.150	61.700	61.400	268	4,019
Oct	62.550	+0.025	62.725	62.500	257	3,050
Total					12,523	72,973

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Dec	47.250	-0.050	47.550	47.050	1,077	2,828
Feb	49.650	-0.350	50.200	49.550	3,114	15,908
Apr	49.075	-0.575	49.750	48.950	636	7,368
Jun	54.250	-0.700	54.950	54.100	398	4,869
Jul	53.650	-0.575	54.250	53.375	175	2,228
Aug	52.625	-0.450	53.000	52.500	75	1,510
Total					5,662	35,936

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	58.775	+0.175	58.900	58.000	1,781	5,131
Mar	58.900	+0.050	59.050	58.150	243	910
May	59.850	-0.025	60.100	59.300	29	481
Jul	60.975	-0.275	61.000	60.000	58	534
Aug	58.250	-0.200	58.250	58.200	15	178
Total					2,126	7,234

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jan	Mar	Jan	Mar
1600	62	96	5	24
1700	9	42	51	69
1800	-	14	143	139
■ COPPER (Grade A) LME	Jan	Mar	Jan	Mar
2700	151	73	4	101
2800	71	39	24	165
2900	23	-	75	-
■ COFFEE LCE	Jan	Mar	Jan	Mar
1500	696	389	-	6
1550	646	343	-	10
1600	596	300	-	17
■ COCOA LCE	Mar	May	Mar	May
950	27	53	38	43
975	18	40	52	57
1000	12	30	71	73
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
1650	-	-	-	14
1700	-	46	-	25
1750	-	23	-	54

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jan)

		+or-
Dubai	$16.97-7.23w	-0.01
Brent Blend (dated)	$17.46-7.48	-0.18
Brent Blend (Jan)	$17.53-7.55	-0.18
W.T.I. (1pm est)	$18.66-8.70w	-0.225

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$168-170	-2
Gas Oil	$173-175	-2.5
Heavy Fuel Oil	$103-105	
Naphtha	$158-160	-2
Jet fuel	$193-195	-1
Diesel	$175-176	-2

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

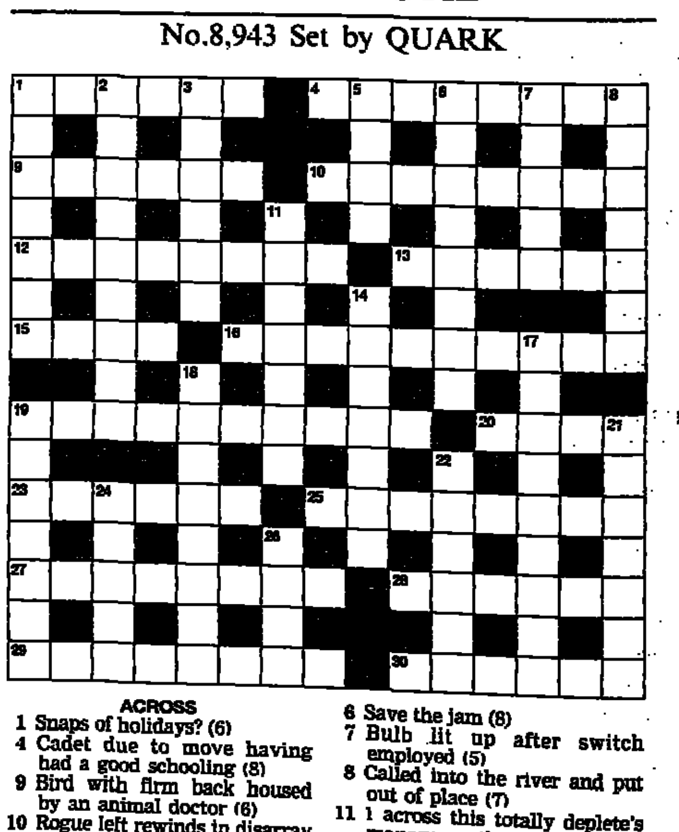
Gold (per troy oz)♣	$388.50	-1.00
Silver (per troy oz)♣	522.5c	-3.0
Platinum (per troy oz.)	$416.00	-0.60
Palladium (per troy oz.)	$136.00	+2.25
Copper	125.0c	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.99m	+0.19
Tin (New York)	304.5c	+1.0
Cattle (live weight)†	120.66	-1.59
Sheep (live weight)†♠	117.48	-1.43
Pigs (live weight)†	108.08	+2.72
Lon. day sugar (raw)	$311.9	-1.4
Lon. day sugar (wte)	$385.5	-0.5
Barley (Eng. feed)	£121.25	+3.00
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jan)♥	114.25p	-0.75
Rubber (Feb)♥	114.25p	-0.75
Rubber (KL RSS No1)	437.0m	+8.0
Coconut Oil (Phil)§	$710.0y	-5.0
Palm Oil (Malay.)§	$585.0z	-5.0
Copra (Phil)§	460.0y	
Soyabeans (US)	210.0u	+1.0
Cotton Outlook 'A' index	88.75c	
Wooltops (64s Super)	432p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Dec. u Nov/Dec. ♥ w Jan. y Dec/Jan. x Oct/Dec London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week † Prices are for previous day.

JOTTER PAD

CROSSWORD

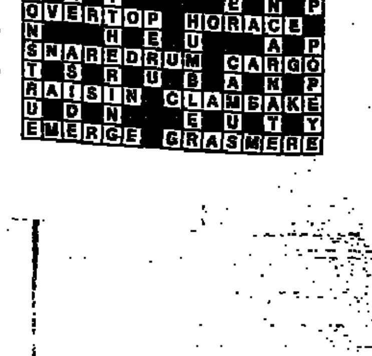
No.8,943 Set by QUARK



ACROSS
1 Snaps of holidays? (6)
4 Cadet due to move having had a good schooling (8)
9 Bird with firm back housed by an animal doctor (6)
10 Rogue left rewinds in disarray (8)
12 Suspicions about degree producing liberalities (8)
13 Arm a post office in overcrowded city (6)
15 I across this gets neither profit nor loss (4)
16 Notice about name in account for attention (10)
19 Description of what's easy to fire? (10)
20 Is in debt; cries of anguish we hear (4)
23 1 across this relieves reserve (3,3)
25 The rider could be the one on the fence? (8)
27 1 across this works very hard (4,4)
28 Sun shades? (6)
29 Exciting hols? Try English inn (8)
30 Steamed pudding is a dull subject (6)

DOWN
1 Plant book found on leisurely walk (7)
2 Green in Scotland for those considering this? (9)
3 Requires, say, works with the dough (6)
5 1 across this becomes ineffective (4)
6 Save the jam (8)
7 Bulb lit up after switch employed (5)
8 Called into the river and put out of place (7)
11 1 across this totally depletes management's resources (3,4)
14 Californian tree? Quite so, timeless on a development (7)
17 1 across this does something not done before (3,6)
18 A motorway message showing a friendly spirit (8)
19 Promise to join in the partnership (7)
21 1 across this takes initiative in tennis (7)
22 Drive home the main point of the argument (6)
24 Vessels partially responsible for fewer supplies (5)
26 Cliff or Mark? (4)

Solution 8,942



INTERNATIONAL CAPITAL MARKETS

French sector switches focus to fundamentals

By Richard Lapper in London and Lisa Bransten in New York

The French bond market yesterday brushed aside worries stemming from the continuing stalemate in the country's industrial dispute, outperforming most other international markets.

Sentiment in the US and many other markets was adversely affected by higher than expected producer price index figures in the United States but trading was thin ahead of key central bank policy-making meetings.

■ French bond prices recovered much of the ground lost on Monday. On Matif, both the 10-year notional and three-month contracts recovered some ground, while in the cash market 10-year yield spreads over German paper narrowed by 2 basis points to 70 points.

Short-dated paper again outperformed, with yields on two-year bonds falling by six basis points compared with a two point fall in the 10-year sector. The spread between the two rates now stands at 143 basis points compared with 130 points a month ago.

"The change in the yield curve indicates that the market is reacting more to fundamentals," said Mr Eldred Buck, head of research at Fimat in Paris. "Panic has gone out of the market. We could sit in this environment for a while. There is a more pragmatic feel to the market."

Mr Julian Jessop, international economist at HSBC Markets in London, said: "The markets are happy with the compromises that have been made. They are viewed as a small price to pay to get France back to work."

If this relative calm prevails, analysts expect the French yield curve to steepen further. The strength of international markets and low inflationary pressure should help firm up bond prices in the 10-year sector, while the expectation of interest rate cuts should encourage outperformance by shorter-dated paper.

Mr Jessop insists that the Bank of France has room to reduce its intervention rate from its current level of 4.70 per cent, even without a cut in Germany tomorrow. "Curve steepening looks like a safe bet," he says.

Sharp movements in prices will remain a feature of the market, however. Volatility implied by the price of options on the Pibor money market future has declined from its recent peak but is still relatively high.

Analysts suggest investors and traders are also coming to the view that slower economic growth will make it increas-

GOVERNMENT BONDS

ingly difficult for France to meet its targets under the Maastricht criteria for European Monetary Union.

"The economy was already weakening before the strikes," said Mr Jessop. "Getting France back to work will be good news for the budget deficit but it will not be enough. The headwinds are too strong," he added, pointing to recent downward revisions for growth forecasts in Germany.

■ Elsewhere, US producer prices provided the most important focus. US bonds slumped in early trading after the release of a higher than expected PPI figures for November. The benchmark 30-year Treasury fell by ¼ just after the Labor Department reported that the PPI rose to 0.5 per cent last month compared with expectations for a 0.2 per cent increase.

Excluding the volatile food and energy components, the PPI rose 0.6 per cent. Increases in food and car prices were the primary force behind the PPI gains, while lower energy costs helped restrain the index.

Traders worried that the threat of rising inflationary pressures might be another factor causing the Federal Reserve to decide against lowering interest rates at next week's meeting of its Open Market Committee.

Economists were divided about whether the PPI gains indicated that inflationary pressures were growing, but by early afternoon bonds had retraced some of their earlier losses.

Near midday the long bond was 5/32 lower at 111¼ to yield 6.049 per cent while at the short end of the maturity spectrum the two-year note was down 1/32 at 99 to yield 5.374 per cent.

Mr Ed Yardini and Ms Debbie Johnson of Deutsche Morgan Grenfell/CJ Lawrence said that despite the strong PPI figures, "disinflation is alive and flourishing".

Based on the new figures, annualised producer inflation was 2 per cent and should head back toward 1 per cent, they said.

Bonds got some support from the dollar, which moved higher against the D-Mark and the yen in early trading.

■ In Germany early gains by bunds were erased as the market reacted negatively to the US price figures. Nevertheless the short end of the yield curve closed marginally higher, with yields on benchmark two-year paper falling by 1 basis point.

On Liffe the March 10-year bund futures contract settled at 98.67, down 0.02, but then regained ground in automated pit trading. Volume, however, was light with only 78,445 contracts exchanged.

■ Sentiment in the gilts market was also affected adversely by the news from the US, but trading was very thin, with only 30,984 contracts exchanged. The March contract settled at 110 13/32, up 1/32, before drifting back in late trading.

■ The highlight in the peripheral European markets was again Sweden, where bond prices rose sharply to recover most of the ground they had lost on Monday. Buying was apparently triggered when the National Debt Office announced that its offered switch of two-year benchmark paper to five and 10-year bonds had been completed.

Earlier, analysts said Monday's fall in prices had created a good buying opportunity, particularly in view of news that the government's borrowing requirement for 1996 has been reduced to SKr60bn–70bn from the SKr70bn–80bn estimated last month.

Fresh supply of five and 14-year paper could depress prices today but the market could benefit if consumer price figures for November show an easing in inflationary pressures.

Yields on 10-year bonds closed at 8.71 per cent with the spread over bunds narrowing by 11 basis points to 260 points.

Paribas may lead deal for Olympus

By Emiko Terazono in Tokyo

Paribas Capital Markets, the Asian arm of Banque Paribas, the French bank, is poised to become the first foreign securities company to win a sole lead-managing mandate for a Japanese domestic bond issue.

Olympus Optical is likely to name Paribas to lead-manage its Y30bn corporate bond this month. The company last week filed an application for the bond issue, which will be used to refinance its previous debt, and says it is likely to receive an approval at the end of the week.

While Paribas's move into the Japanese domestic bond market will be significant, some foreign brokers are sceptical that it will open the door to a flood of lead-managing appointments by Japanese companies.

In 1991, Morgan Stanley became co-bookrunner with Nomura Securities, Japan's largest broker, for a corporate bond issue by Nippon Telegraph and Telephone.

However, most leading Japanese companies have been reluctant to give lead-manager status to foreign securities houses, with only Osaka Gas following NTT's example.

The entrance of securities subsidiaries of banks into the primary market has only aggravated the situation for foreign securities houses.

Paribas, nevertheless, is stepping up marketing efforts of its Japanese bond issuance business.

The company served as senior manager when Olympus issued Y50bn of euroyen warrant bonds in 1992, and recently lead-managed a D-Mark-denominated bond issued by the Export-Import Bank of Japan.

Hungary to decide on buyer for Kogaz stake

By Virginia Marsh in Budapest

Hungary is due to decide today on the sale of a 50 per cent plus one share stake in Kogaz, its second largest regional gas distribution company (GDC), said officials at APV Rt, the state privatisation agency.

A consortium of Bayernwerk of Germany and EVN of Austria is likely to be awarded the stake after matching a top first-round bid of $67.3m, banking sources said.

Bayernwerk last week also acquired a minority stake in one of Hungary's six electricity distribution companies, which together with the GDCs, are being sold as part of the country's sweeping privatisation of its energy sector. German and French companies have dominated the sales.

Kogaz is the only one of five regional GDCs to go to a second round of bidding.

A consortium of Italgas/Snam entered the highest first-round bid but was barred from acquiring the company after purchasing Tigaz, the largest of the five GDCs, in the first round.

Gaz de France, the runner-up in the Kogaz tender, was unable to participate in the second round after purchasing two of the smaller GDCs. A fourth GDC was sold to Germany's Ruhrgas.

This left the other first round bidders for Kogaz – the Bayernwerk/EVN consortium, RWE Energie and Preussen-Elektra, both of Germany, and Camuzzi of Italy – with an option to match the Italians' bid.

Campbell Soup targets Swiss

By Conner Middelmann

With the eurobond market winding down for the holidays, new issues were few and far between. Nevertheless, two transactions targeted at Swiss retail investors got a warm welcome.

Campbell Soup, the US food group, issued $200m of three-year bonds, priced to yield eight basis points over US Treasuries. Lead manager J.P. Morgan said the deal was targeted at Swiss, Benelux and German retail accounts.

Swiss retail investors' hunger for short-dated dollar bonds, amid large redemptions this month, has prompted the issuance of several short-dated, tightly-priced dollar deals in recent weeks. Many of them have tightened further in secondary trading, and J.P. Morgan said it expects this issue to perform in a similar fashion.

INTERNATIONAL BONDS

Meanwhile, KfW International, the funding arm of the German development agency, tapped into Swiss retail demand for Canadian dollars with a C$100m issue of six-year bonds yielding five basis points over Canadian government bonds.

Retail buying has been fuelled not only by redemptions, but also by the Canadian National Railway's recent offer to buy back its outstanding bonds, totalling some C$750m, said an official at lead manager Toronto-Dominion Bank.

In the D-Mark sector, SBAB, the Swedish national housing finance corporation, issued DM200m of floating-rate notes paying a coupon of three-month Libor plus five basis points. According to lead manager Lehman Brothers Bankhaus, the issue was substantially pre-placed primarily among money-market funds.

In the US domestic – or Yankee – bond market, the autonomous Spanish region of Catalonia issued $165m of 12-year bonds priced to yield 73 basis points over Treasuries via Merrill Lynch. Having previously issued two French franc bonds in the eurobond market and a yen-denominated private placement, this was Catalonia's first foray into the dollar sector.

"We decided to tap the Yankee market because we wanted to broaden our investor base and achieve a longer maturity" than would have been obtainable in the eurobond market, said Mr Javier Ruiz del Portal, of the Catalonian Treasury.

To meet Maastricht criteria for European Monetary Union, Spain and its regions are tightening their belts, which is likely to result in lower foreign borrowing, he said.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Campbell Soup Company	200	5.50	99.827R	Jan.1999	0.20R	+8(5½%-98)	JP Morgan Securities
D-MARKS							
Allgemeine Hypo.(a)	1bn	6.25	101.75	Jan.2005	2.50	-	Commerz/DG Bank/Dresdner
SBAB‡	200	(b,s)	100.00R	Feb.1998	0.08R	-	Lehman Brothers Bankhaus
SWISS FRANCS							
Korea Mobile Telecom.(c)ϕ*	70	0.125	100.00	Dec.1999	1.625	-	Credit Suisse
CANADIAN DOLLARS							
KfW International Finance(s)	100	6.75	99.24R	Dec.2001	0.275R	+5(7½%-01)	Toronto Dominion Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ϕWith equity warrants. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Oeffentliche Pfandbrief. Fungible with DM1bn. Short 1st coupon and plus 19 days accrued. b) 3-mth Libor +5bp. c) Denom: SFr50,000 + 50 wrts. Ex price: Won 794,700. FX: 659.36 Won/SFr. Refixing clause effective 12/7/97 & 13/7/98. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		7.500	07/05	94.6400	-0.130	8.32	8.16	8.59
Austria		6.500	11/05	99.7900	+0.290	6.53	6.54	6.87
Belgium		6.500	03/05	98.6300	+0.020	6.70	6.73	6.80
Canada *		8.750	12/05	109.5300	-0.180	7.38	7.16	7.58
Denmark		8.000	03/06	104.7000	-	7.32	7.32	7.72
France	BTAN	7.750	04/00	106.5000	+0.050	5.97	6.24	6.47
	OAT	7.750	10/05	106.5600	+0.060	6.82	6.87	7.47
Germany Bund		6.500	10/05	102.7900	-0.070	6.11	6.05	6.41
Ireland		6.250	10/04	92.3000	-	7.46	7.45	7.94
Italy		10.500	09/05	97.7100	+0.090	10.88†	11.18	11.43
Japan	No 129	6.400	03/00	120.5860	-0.040	1.29	1.40	1.59
	No 174	4.600	09/04	114.1800	-0.090	2.61	2.71	2.99
Netherlands		6.750	11/05	104.4800	-0.020	6.13	6.09	6.45
Portugal		11.875	02/05	109.8000	+0.280	10.17	10.24	11.18
Spain		10.150	01/06	99.3000	+0.330	10.06	10.15	10.84
Sweden		6.000	02/05	83.3600	+0.546	8.71	8.58	9.09
UK Gilts		8.000	12/00	104-23	-	6.86	6.84	7.31
		8.500	12/05	107-12	+3/32	7.44	7.47	7.85
		9.000	10/08	111-10	+4/32	7.60	7.64	7.98
US Treasury *		5.875	11/05	101-03	-3/32	5.73	5.70	5.93
		6.875	08/25	111-08	-3/32	6.05	6.02	6.27
ECU (French Govt)		7.500	04/05	102.8100	+0.260	7.07	7.09	7.64

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.57	Two year	5.41
Prime rate	8¾	Two month	5.51	Three year	5.44
Broker loan rate	7½	Three month	5.42	Five year	5.57
Fed.funds	5 11/16	Six month	5.44	10-year	5.74
Fed.funds at intervention.	-	One year	5.38	30-year	6.07

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	120.20	120.34	+0.18	120.44	120.18	108,776	71,366
Mar	119.48	119.56	+0.14	119.62	119.42	32,690	58,108
Jun	119.72	119.86	+0.32	119.90	119.72	735	3,349

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Mar	PUTS Jun
116	-	3.80	-	0.03	0.28	0.57
117	1.67	-	-	0.05	0.46	-
118	-	2.21	-	0.14	0.69	1.04
119	0.39	1.57	-	0.37	1.00	1.39
120	0.13	1.03	1.66	-	-	-

Est. vol. total, Calls 12,011 Puts 23,763. Previous day's open int., Calls 137,002 Puts 123,990.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.72	98.67	-0.02	98.85	98.57	78445	203657
Jun	98.20	98.04	-0.03	98.20	98.20	6	188

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
9850	0.41	0.78	1.03	1.18	0.24	0.61	0.86	1.64
9900	0.18	0.54	0.78	0.96	0.51	0.87	1.11	1.92
9950	0.06	0.35	0.57	0.78	0.89	1.16	1.40	2.24

Est. vol. total, Calls 17122 Puts 13528. Previous day's open int., Calls 182948 Puts 158101

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	106.03	106.29	+0.22	106.45	105.88	28896	46683
Jun	105.90	105.89	+0.22	105.90	105.90	675	721

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
10600	1.89	2.56	1.60	2.67
10650	1.64	2.33	1.85	2.94
10700	1.42	2.10	2.13	3.21

Est. vol. total, Calls 2439 Puts 3512. Previous day's open int., Calls 34920 Puts 27426

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	93.28	93.50	+0.26	93.63	93.23	45,167	32,052
Mar	93.32	93.49	+0.29	93.54	93.23	7,164	16,844

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110-30	110-29	+0-03	111-01	110-27	2391	32015
Mar	110-13	110-13	+0-03	110-20	110-04	30984	120457

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
110	0-51	1-27	1-50	2-17	0-25	1-01	1-24	2-27
111	0-20	0-59	1-17	1-53	0-58	1-33	1-55	2-63
112	0-06	0-36	0-56	1-29	1-44	2-10	2-30	3-39

Est. vol. total, Calls 3086 Puts 1306. Previous day's open int., Calls 27976 Puts 24310

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	90.62	90.82	+0.22	90.86	90.62	3,914	8,518
Mar	89.54	89.70	+0.16	89.74	89.54	1,507	2,432

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	120-16	120-03	-0-15	120-24	119-29	13,666	68,633
Mar	120-10	119-27	-0-15	120-17	119-21	126,019	347,062
Jun	119-31	119-15	-0-13	120-02	119-09	207	15,409

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	122.25			122.26	122.06	1322	0
Jun						0	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Dec 12	Day's change %	Wed Dec 11	Accrued interest	xd adj. ytd
1 Up to 5 years (23)	123.23	-0.02	123.25	1.97	10.23
2 5-15 years (21)	149.97	+0.04	149.91	1.53	12.20
3 Over 15 years (8)	167.85	+0.10	167.69	2.04	13.13
4 Irredeemables (6)	192.92	+0.16	192.62	1.47	13.71
5 All stocks (58)	145.05	+0.03	145.00	1.81	11.76

	Low coupon yield Dec 12	Dec 11	Yr. ago	Medium coupon yield Dec 12	Dec 11	Yr. ago	High coupon yield Dec 12	Dec 11	Yr. ago
5 yrs	6.93	6.92	8.58	6.95	6.94	8.57	7.03	7.02	8.76
15 yrs	7.62	7.62	8.44	7.66	7.67	8.58	7.73	7.74	8.80
20 yrs	7.69	7.70	8.41	7.73	7.73	8.58	7.78	7.79	8.71
Irred.†	7.80	7.81	8.46						

Index-linked	Tue Dec 12	Day's change %	Wed Dec 11	Accrued interest	xd adj. ytd		Inflation 5% Dec 12	Dec 11	Yr. ago	Inflation 10% Dec 12	Dec 11	Yr. ago
6 Up to 5 years (1)	195.34	+0.07	195.20	1.14	8.37	Up to 5 yrs	2.78	2.80	4.16	1.67	1.68	3.01
7 Over 5 years (11)	189.47	-0.02	189.52	1.22	4.73	Over 5 yrs	3.52	3.51	3.91	3.33	3.32	3.73
8 All stocks (12)	189.47	-0.02	189.51	1.22	4.81							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Dec 12	Dec 11	Dec 8	Dec 7	Dec 6	Yr ago	High*	Low*
Govt. Secs. (UK)	95.89	95.86	96.15	96.03	96.22	91.49	96.22	90.22
Fixed Interest	114.77	115.01	115.04	114.81	114.49	109.49	115.04	108.77

* for 1995. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Dec 11	Dec 8	Dec 7	Dec 6	Dec 5
Gilt Edged bargains	72.2	80.2	91.8	112.1	109.1
5-day average	93.1	95.9	100.7	104.2	105.7

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on December 12

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 5 97	1000	99¼	99½		5.69
Abbey Natl Treasury 6½ 03	1000	101⅝	102	-¼	6.21
ABN Amro Bank 7¼ 05	1000	106¼	106½		6.46
African Dev Bk 7⅜ 23	500	106⅜	107	-⅛	6.85
Alberta Province 7⅝ 98	1000	105	105¼		5.70
Asian Dev Bank 6¼ 05	750	101⅝	101⅞	+⅛	6.12
[illegible]					
Sweden 8 97	2500	105⅞	107		4.15
United Kingdom 7⅛ 97	5500	105½	105⅝		4.02
Volkswagen Intl Fin 7 03	1000	104⅜	104⅝	+⅛	6.24
World Bank 0 15	2000	28½	28⅞	+½	6.47
World Bank 5⅞ 03	3000	99⅞	100	+⅛	5.89
SWISS FRANC STRAIGHTS					
[illegible]					
Abbey Natl Treasury 8 03 £	1000	101¼	101⅜	+⅛	7.76
Alliance Leics 11⅜ 97 £	100	106⅛	106½		6.60
British Land 8⅞ 23 £	150	95½	96¼	+⅜	9.55
Denmark 6¾ 98 £	800	99⅞	100⅛		6.78
EIB 8 03 £	1000	102⅜	102⅝		7.56
Halifax 10⅜ 97 £	100	104⅜	104⅝		6.49
[illegible]					

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)						
[illegible]						

CURRENCIES AND MONEY

MARKETS REPORT

Markets look for possible rate cuts

By Our Economics Staff

The foreign exchanges were frozen in anticipation yesterday as dealers awaited decisions over the next few days on possible interest rate cuts in the UK, Germany and the US.

The pound traded within narrow ranges against both the dollar and the D-mark ahead of today's meeting between Mr Kenneth Clarke, the chancellor, and Mr Eddie George, governor of the Bank of England. Two-thirds of City economists expect them to agree a cut in base rates – and two-thirds of those expect that cut to be a quarter point to 6.5 per cent.

Sterling closed in London 0.23 cents below Monday's close at $1.5314 and 0.34 pfennigs higher against the D-mark at DM2.2183. Analysts believe that the pound is unlikely to take too much of a knock if base rates fall today, arguing that in recent months well timed cuts in European interest rates have been rewarded rather than punished by the markets.

Ms Alison Cottrell, international economist at Paine Webber, said that sterling would affected not so much by whether rates fell, but on whether it looked as though the chancellor and the governor had agreed on the decision. "A united, happy, smiling move or non-move would be fine for sterling", she said.

■ The dollar was pushed to the top of the day's European trading range by unexpectedly poor US producer prices figures. Finished goods prices rose by a seasonally adjusted 0.5 per cent in November, compared to the 0.2 per cent predicted by Wall Street economists. The main contributing factor was higher car prices, but statisticians said the figures had been distorted by a new seasonal pattern in vehicle production.

"This complicates the run-up to the Federal Open Markets Committee meeting on Tuesday," said Mr Gerard Lyons, economist at DKB International. He said it would give further ammunition to those Fed members opposed to a rate cut, although he still thought there was an evens chance of an easing next week.

But Fed governor Mr Edward Kelley tried to talk down expectations of a rate move, arguing that the US would maintain "a slow to moderate growth path", while inflation would stay in check for the foreseeable future.

The dollar had started to move upwards against the yen on Monday night, helped by US buying, before drifting higher in European trading. It closed 0.43 pfennigs above Monday's close at DM1.4485 and 0.785 yen higher at Y101.805. The dollar was helped by the absence of any news to lengthen the odds against a German rate cut when the Bundesbank council meets tomorrow.

■ The Swiss franc ended a relatively busy day's trading in Zurich slightly weaker, amid speculation that the Swiss National Bank might nudge down its 2 per cent discount rate later this week. The D-mark ended at 0.8811 Swiss francs up from Monday's close of 0.809.

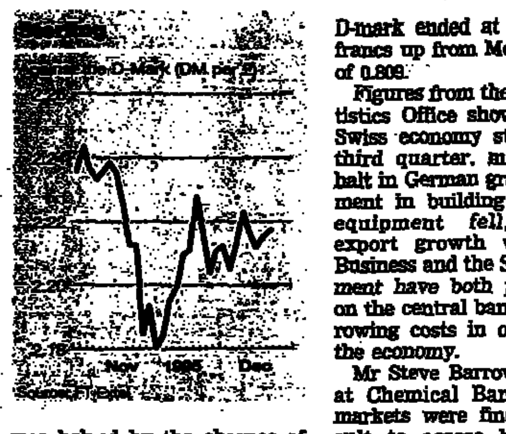
Figures from the Federal Statistics Office showed that the Swiss economy stalled in the third quarter, mirroring the halt in German growth. Investment in building and capital equipment fell, although export growth was robust. Business and the Swiss government have both put pressure on the central bank to cut borrowing costs in order to help the economy.

Mr Steve Barrow, economist at Chemical Bank, said the markets were finding it difficult to assess how serious policymakers were in their concern about the strength of franc. "The GDP figures will only add to that confusion", he said.

■ The Israeli shekel plumbed record depths against the US dollar amid gathering speculation that the currency could be devalued. The shekel has fallen by more than 4 per cent over the last two months and closed yesterday at a new low of 3.1160 to the dollar.

Israeli businesses have been complaining that the strength of the currency has been hurting their export prospects. Over the last two years the shekel has been shored up by tight interest rate policies. But talk of cuts in the government's budget has raised the prospect of offsetting reductions in interest rates which would weaken the currency.

■ The Bank of England forecast a £750m shortage of liquidity in the money market. It bought bills worth £199m in morning and afternoon operations, before providing £570m in late assistance.



■ Pound in New York

Dec 12	—Latest—	— Prev. close —
£ spot	1.5305	1.5345
1 mth	1.5296	1.5336
3 mth	1.5280	1.5320
1 yr	1.5195	1.5233

■ OTHER CURRENCIES

Dec. 12	£	$
Czech Rp	40.7721 - 40.8087	26.6310 - 26.6410
Hungary	208.767 - 208.953	136.360 - 136.410
Iran	4595.40 - 4593.00	3000.00 - 3000.00
Kuwait	0.4588 - 0.4598	0.2997 - 0.3002
Poland	3.8789 - 3.8831	2.5330 - 2.5350
Russia	7092.23 - 7093.12	4630.00 - 4633.00
U.A.E.	5.6232 - 5.6265	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Dec 12		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.6068	+0.0238	984 - 152	15.6152	15.4711	15.5833	3.3	15.5193	2.2	-	-	106.6
Belgium	(BFr)	45.6105	+0.0903	733 - 476	45.6476	45.4020	45.4052	3.0	45.3255	2.5	44.8005	2.2	109.0
Denmark	(DKr)	8.5961	+0.0181	943 - 018	8.6018	8.5453	8.5884	1.6	8.5891	1.3	8.5107	1.0	109.4
Finland	(FM)	6.6736	+0.0085	680 - 791	6.6791	6.5680	6.6607	0.8	6.6612	0.7	-	-	87.4
France	(FFr)	7.6521	+0.0115	489 - 552	7.6552	7.6091	7.6415	-0.1	7.641	0.6	7.5998	0.7	109.8
Germany	(DM)	2.2183	+0.0034	172 - 193	2.2195	2.2076	2.2101	2.6	2.205	2.4	2.1653	2.4	111.4
Greece	(Dr)	368.587	+1.559	414 - 759	368.759	362.857	-	-	-	-	-	-	66.3
Ireland	(I£)	0.9693	+0.0024	684 - 701	0.9701	0.9650	0.9659	1.2	0.9672	0.9	0.9637	0.6	97.2
Italy	(L)	2447.71	+0.92	593 - 950	2449.50	2423.38	2455.64	-4.3	2472.76	-4.1	2547.16	-4.1	71.2
Luxembourg	(LFr)	45.6105	+0.0903	733 - 476	45.6476	45.4020	45.4052	3.0	45.3255	2.5	44.8005	2.2	109.0
Netherlands	(Fl)	2.4823	+0.0024	808 - 837	2.4872	2.4729	2.4734	3.2	2.4659	2.7	2.4223	2.4	109.2
Norway	(NKr)	9.7837	+0.002	796 - 877	9.7877	9.6814	9.7716	1.2	9.7521	1.3	9.6709	1.2	98.3
Portugal	(Es)	232.849	+0.141	712 - 987	232.987	231.493	233.133	-2.2	234.179	-2.3	-	-	94.9
Spain	(Pta)	188.753	-	665 - 840	189.063	187.691	189.238	-3.1	190.188	-3.0	194.408	-3.0	81.9
Sweden	(SKr)	10.2972	-0.0504	868 - 075	10.3075	10.1271	10.3495	-0.2	10.3027	-0.2	10.3179	-0.2	86.6
Switzerland	(SFr)	1.7998	+0.0071	988 - 006	1.8006	1.7858	1.7859	4.5	1.7812	4.1	1.7277	4.0	115.0
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	82.8
Ecu	-	1.2096	+0.0044	088 - 103	1.2103	1.1972	1.2042	1.0	1.2071	0.8	1.1997	0.8	-
SDR†	-	1.032800	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5313	-0.0023	308 - 318	1.5339	1.5205	-	-	-	-	-	-	-
Brazil	(R$)	1.4797	-0.0024	791 - 802	1.4819	1.4693	-	-	-	-	-	-	-
Canada	(C$)	2.1101	-0.0064	091 - 110	2.1110	2.0872	2.115	0.8	2.1075	0.5	2.1032	0.3	83.1
Mexico	(New Peso)	11.8607	-0.0408	193 - 021	11.9021	11.7887	-	-	-	-	-	-	-
USA	($)	1.5314	-0.0023	310 - 318	1.5341	1.5205	1.5328	0.7	1.529	0.6	1.5204	0.7	94.4
Pacific/Middle East/Africa													
Australia	(A$)	2.0674	-0.0157	661 - 686	2.0774	2.0631	2.0846	-0.9	2.0727	-1.0	2.0892	-1.1	85.6
Hong Kong	(HK$)	11.8447	-0.017	408 - 485	11.8635	11.7808	11.8546	0.7	11.8295	0.5	11.803	0.4	-
India	(Rs)	53.3770	-0.038	247 - 292	53.4980	53.1110	-	-	-	-	-	-	-
Israel	(Shk)	4.7764	-0.0015	714 - 814	4.7814	4.7177	-	-	-	-	-	-	-
Japan	(Y)	155.904	+0.97	810 - 999	155.999	154.350	154.039	6.9	153.569	6.0	147.264	5.5	142.2
Malaysia	(M$)	3.8906	-0.0018	890 - 926	3.8933	3.8602	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3711	-0.0018	692 - 730	2.3732	2.3592	2.3758	-1.5	2.3811	-1.7	2.4052	-1.4	100.4
Philippines	(Peso)	40.1457	-0.0526	969 - 944	40.1944	40.1321	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7437	-0.0086	419 - 455	5.7539	5.7034	-	-	-	-	-	-	-
Singapore	(S$)	2.1670	-0.0009	658 - 683	2.1697	2.1526	-	-	-	-	-	-	-
South Africa	(R)	5.6169	-0.0063	146 - 191	5.6252	5.5802	-	-	-	-	-	-	-
South Korea	(Won)	1180.17	+0.22	979 - 056	1181.18	1170.33	-	-	-	-	-	-	-
Taiwan	(T$)	41.8195	-0.0505	055 - 335	41.8804	41.5036	-	-	-	-	-	-	-
Thailand	(Bt)	38.5071	-0.0348	893 - 248	38.5880	38.2710	-	-	-	-	-	-	-

† Rates for Dec 11. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 12		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	10.1912	+0.0306	884 - 940	10.1940	10.1400	10.1757	1.8	10.1497	1.6	10.0462	1.4	106.5
Belgium	(BFr)	29.7835	+0.1035	670 - 000	29.8950	29.7050	29.7315	2.1	29.6435	1.9	29.3385	1.5	108.7
Denmark	(DKr)	5.6145	+0.0202	135 - 156	5.6245	5.5809	5.6107	0.8	5.6045	0.7	5.622	-0.1	108.8
Finland	(FM)	4.3578	+0.012	553 - 603	4.3603	4.3046	4.3528	1.4	4.3441	1.3	4.3153	1.0	85.8
France	(FFr)	4.9968	+0.015	960 - 975	5.0092	4.9737	5.0003	-0.8	5.0078	-0.9	5.0193	-0.5	109.3
Germany	(DM)	1.4485	+0.0043	482 - 488	1.4550	1.4439	1.4462	1.9	1.442	1.8	1.4245	1.7	110.7
Greece	(Dr)	239.380	+1.375	330 - 430	239.610	237.270	241.105	-8.6	244.305	-8.2	257.78	-7.7	65.9
Ireland	(I£)	1.5800	-0.0062	790 - 810	1.5855	1.5735	1.5805	-0.3	1.5809	-0.2	1.577	0.2	-
Italy	(L)	1598.35	+3	760 - 910	1601.25	1588.39	1605.2	-5.1	1617.25	-4.7	1675.35	-4.8	70.7
Luxembourg	(LFr)	29.7835	+0.1035	670 - 000	29.8950	29.7050	29.7315	2.1	29.6435	1.9	29.3385	1.5	108.7
Netherlands	(Fl)	1.6209	+0.004	204 - 214	1.6284	1.6175	1.6178	2.3	1.6127	2.0	1.5934	1.7	108.5
Norway	(NKr)	6.3887	+0.0109	877 - 897	6.4150	6.3080	6.3864	0.4	6.3782	0.7	6.3612	0.4	97.3
Portugal	(Es)	152.050	+0.32	000 - 100	152.770	151.390	152.425	-3.0	153.195	-3.0	156.8	-3.1	95.0
Spain	(Pta)	123.255	+0.185	230 - 280	123.720	123.050	123.65	-3.8	124.385	-3.7	127.875	-3.7	81.4
Sweden	(SKr)	6.7240	-0.0228	190 - 290	6.7290	6.6403	6.7411	-3.0	6.7705	-2.8	6.908	-2.7	85.3
Switzerland	(SFr)	1.1753	+0.0064	750 - 755	1.1768	1.1690	1.1717	3.7	1.165	3.5	1.1366	3.3	114.6
UK	(£)	1.5314	-0.0023	310 - 318	1.5341	1.5205	1.5305	0.7	1.5272	1.1	1.5204	0.7	82.4
Ecu	-	1.2661	-0.0066	656 - 665	1.2769	1.2685	1.2664	-0.3	1.2668	-0.2	1.2674	-0.1	-
SDR†	-	0.67250	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.0000	-	999 - 000	1.0000	0.9999	-	-	-	-	-	-	-
Brazil	(R$)	0.9662	-0.0002	661 - 663	0.9663	0.9663	-	-	-	-	-	-	-
Canada	(C$)	1.3779	-0.0021	776 - 781	1.3781	1.3693	1.3779	0.0	1.3783	-0.1	1.3833	-0.4	81.9
Mexico	(New Peso)	7.7450	-0.015	200 - 700	7.7700	7.7200	7.7473	-0.3	7.7504	-0.3	7.7553	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	95.2
Pacific/Middle East/Africa													
Australia	(A$)	1.3499	-0.0082	495 - 504	1.3569	1.3495	1.3519	-1.8	1.3554	-1.6	1.3741	-1.8	85.8
Hong Kong	(HK$)	7.7345	+0.0005	340 - 350	7.7348	7.7335	7.7352	-0.1	7.737	-0.1	7.764	-0.4	-
India	(Rs)	34.8550	+0.0275	300 - 800	34.9500	34.8300	35.005	-5.2	35.31	-5.2	36.78	-5.5	-
Israel	(Shk)	3.1190	+0.0037	165 - 214	3.1214	3.0948	-	-	-	-	-	-	-
Japan	(Y)	101.805	+0.785	770 - 840	101.840	101.190	101.29	6.1	100.445	5.3	96.88	4.8	143.7
Malaysia	(M$)	2.5407	+0.0027	402 - 412	2.5412	2.5373	2.5416	-0.4	2.5477	-1.1	2.5712	-1.2	-
New Zealand	(NZ$)	1.5482	+0.0012	475 - 492	1.5516	1.5470	1.5513	-2.4	1.5571	-2.3	1.5817	-2.2	-
Philippines	(Peso)	26.2150	+0.005	900 - 400	26.2400	26.1600	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	-	504 - 508	3.7510	3.7504	3.751	-0.1	3.7517	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4150	+0.0015	145 - 155	1.4155	1.4130	1.4115	3.0	1.4055	2.7	1.38	2.5	-
South Africa	(R)	3.6678	-	673 - 683	3.6705	3.6665	3.6958	-9.1	3.7469	-8.6	3.9988	-8.8	-
South Korea	(Won)	770.650	+1.3	600 - 700	770.700	769.100	773.65	-4.7	777.15	-3.4	795.65	-3.2	-
Taiwan	(T$)	27.3080	+0.008	060 - 100	27.3100	27.2960	27.328	-0.9	27.368	-0.9	-	-	-
Thailand	(Bt)	25.1450	+0.015	400 - 500	25.1600	25.1400	25.2437	-4.7	25.4475	-4.8	26.33	-4.7	-

† SDR rate per $ for Dec 11. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 11: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

December 12	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.00	3.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	3.50	-
France	5¼	[illegible]	[illegible]	[illegible]	[illegible]	4.70	-	6.10
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.80	-	6.10
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.50	3.50	3.98
week ago	[illegible]	[illegible]	4	[illegible]	[illegible]	5.50	3.50	3.98
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	10.51
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	10.51
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.50	3.60
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.50	3.60
Switzerland	2	[illegible]	[illegible]	[illegible]	[illegible]	5.00	2.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	2.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.25	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.25	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.20	5.32	5.31	5.28	-	-	-
week ago	-	5.20	5.34	5.31	5.26	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 12	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	4⅛ - 4	4 - 3⅞	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	5½ - 5⅜	[illegible]	[illegible]	[illegible]	5½ - 5
Portuguese Esc.	[illegible]	[illegible]	9 - 8⅞	[illegible]	[illegible]	9⅛ - 9
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	2½ - 2⅜	[illegible]	2⅛ - 2	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	1⅞ - 1¾	1⅞ - 1¾	[illegible]	2½ - 2⅜	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.07	94.23	+0.18	94.25	94.06	28,700	33,925
Mar	94.60	94.71	+0.09	94.73	94.60	11,117	42,734
Jun	94.86	94.92	+0.05	94.94	94.86	3,398	35,743

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.10	96.08	-0.01	96.11	96.08	24333	129866
Mar	96.37	96.37	+0.01	96.39	96.36	19484	169252
Jun	96.42	96.44	+0.02	96.45	96.42	15425	130471
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
8950	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8975	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, [illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 12		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.85	16.78	4.863	2.125	5365	5.442	21.45	510.4	413.7	22.56	3.944	2.193	4.626	3.357	341.8	2.651
Denmark	(DKr)	53.05	10	8.900	2.580	1.127	2846	2.887	11.38	270.8	219.5	11.97	2.092	1.163	2.454	1.781	181.3	1.406
France	(FFr)	59.61	11.24	10	2.899	1.266	3198	3.244	12.79	304.2	246.6	13.45	2.351	1.307	2.757	2.001	203.7	1.580
Germany	(DM)	20.56	3.876	3.450	1	0.437	1103	1.119	4.411	105.0	85.06	4.639	0.811	0.451	0.951	0.690	70.29	0.545
Ireland	(I£)	47.07	8.873	7.897	2.289	1	2525	2.561	10.10	240.2	194.7	10.62	1.857	1.032	2.176	1.580	160.9	1.248
Italy	(L)	1.864	0.351	0.313	0.091	0.040	100.	0.101	0.400	9.514	7.711	0.421	0.074	0.041	0.086	0.063	6.371	0.049
Netherlands	(Fl)	18.38	3.464	3.083	0.894	0.390	985.9	1	3.942	93.80	76.03	4.146	0.725	0.403	0.850	0.617	62.81	0.487
Norway	(NKr)	46.62	8.788	7.821	2.267	0.990	2501	2.537	10	237.9	192.9	10.52	1.839	1.022	2.157	1.565	159.3	1.236
Portugal	(Es)	19.59	3.693	3.287	0.953	0.416	1051	1.066	4.203	100.	81.06	4.420	0.773	0.430	0.906	0.658	66.97	0.519
Spain	(Pta)	24.17	4.556	4.055	1.175	0.514	1297	1.315	5.185	123.4	100.	5.453	0.953	0.530	1.118	0.811	82.62	0.641
Sweden	(SKr)	44.32	8.356	7.436	2.155	0.942	2378	2.412	9.508	226.2	183.4	10	1.748	0.972	2.051	1.488	151.5	1.175
Switzerland	(SFr)	25.35	4.779	4.253	1.233	0.539	1360	1.380	5.439	129.4	104.9	5.720	1	0.556	1.173	0.851	86.66	0.672
UK	(£)	45.61	8.598	7.652	2.218	0.969	2447	2.482	9.784	232.8	188.7	10.29	1.799	1	2.110	1.531	155.9	1.209
Canada	(C$)	21.62	4.075	3.627	1.051	0.459	1160	1.176	4.637	110.3	89.43	4.877	0.853	0.474	1	0.726	73.89	0.573
US	($)	29.79	5.616	4.998	1.449	0.633	1598	1.621	6.391	152.1	123.3	6.721	1.175	0.653	1.378	1	101.8	0.790
Japan	(Y)	29.26	5.515	4.908	1.423	0.622	1570	1.592	6.276	149.3	121.0	6.600	1.154	0.641	1.353	0.982	100.	0.775
Ecu		37.73	7.112	6.329	1.835	0.801	2024	2.053	8.093	192.6	156.1	8.511	1.488	0.827	1.745	1.266	128.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6936	0.6909	-0.0018	0.6936	0.6902	33,853	48,684
Mar	0.6956	0.6941	-0.0016	0.6957	0.6932	22,060	33,509
Jun	-	0.6991	-	-	-	153	2,075

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9899	0.9830	-0.0071	0.9899	0.9828	28,993	39,320
Mar	1.0026	0.9962	-0.0074	1.0033	0.9962	17,481	35,758
Jun	-	-	-	-	1.0164	23	634

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8569	0.8529	-0.0029	0.8569	0.8514	18,101	27,331
Mar	0.8640	0.8602	-0.0031	0.8643	0.8597	17,396	25,604
Jun	0.8672	0.8672	-0.0035	0.8680	0.8667	126	652

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5322	1.5322	-0.0022	1.5356	1.5300	55,029	36,720
Mar	1.5318	1.5300	-0.0020	1.5334	1.5290	23,140	30,098
Jun	-	1.5270	+0.0024	-	-	8	18

UK INTEREST RATES

LONDON MONEY RATES

Dec 12	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9375	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9400	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, [illegible]

BASE LENDING RATES

[illegible]

■ EMS EUROPEAN CURRENCY UNIT RATES

Dec 12	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NON ERM MEMBERS						
Greece	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Prf		50½	—	98	50¼	6.31	19.8	–
Cater Allen		456xd	—	525	418	141.8	8.8	7.2
Close Bros		324	—	*340½	216¼	395.8	3.4	14.4
Gerrard & Nat		453xd	—	495	385	221.1	6.2	14.6
Hambros		281xd	-2	283	180	355.4	4.7	–
7½pc Cv Pf		98	—	112	94	123.7	9.9	–
Joseph (L)		458xd	—	483	353	24.3	5.1	25.6
King & Shaxson		139½	+2	145	85	35.9	8.1	10.6
Rea Brothers		48	—	67	44	22.4	2.7	18.4
Schroders		1343	+8	*1478	906¼	2,827	1.3	19.1
N/V		1148	+8	*1180	823¼	505.1	1.5	16.4
Singer & Fried		110½	+1½	111	81	217.4	4.2	11.4
8½pc Cv Ln 09/14		£135¼	—	£137	£113	41.6	6.3	–
Union		103	—	121	70	27.4	3.8	–
Wintrust		288	—	289	200	23.0	5.3	15.3

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		£28½	+⅛	£29⅛	£21⅛	8,736	4.5	10.6
AIC AS		298	—	298	185	4,113	5.4	Φ
Abbey National		628	-10	654	397½	8,289	3.8	12.6
Allied Irish IE		358	+1	368	248	2,388	4.0	10.4
Anglo Irish IE		68xd	—	70	48	227.1	6.6	Φ
Asahi Y		760¼	-8	857½	605¼	17,722	0.6	–
Banco Bil Viz Pta		£21¾	-⅛	£21⅞	£14⅞	4,991	3.9	9.4
Banco Sant Pta		£31⅛	—	£31⅛	£22⅛	4,971	4.3	21.2
Bk Ireland IE		478xd	—	488	288	2,272	3.6	9.6
Bank Scotland		275xd	+1	285	191½	3,239	2.8	12.2
9¼pc Pf		119½	+¼	128	109¼	118.5	9.7	–
New 9 1/4pc Pf		117xd	—	118¼	106¼	117.0	9.9	–
9¾pc Pf		125¼	—	127¼	112¾	125.8	9.7	–
Barclays		772	-5	812½	557½	12,514	3.6	10.5
Dai Ichi Kan Y		£12⅛	+⅛	£13⅛	£9⅞	38,329	0.4	–

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

OTHER SERVICES & BUSINESSES - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£31⅛	—	£34	£29	2,111	2.7	15.5
Barlow	♣	99d	—	[illegible]	[illegible]	1,063	1.7	Φ
Gold Flds Prop R		154	—	155	138	15.7	6.9	6.9
NK Props		92	—	96	85	3.78	13.0	–
SASOL	♥	538	+8	648	435	3,158	2.6	–
SA Brews		£23⅛xd	+⅛	£23⅞	£12⅞	6,429	1.5	31.0
Standard Bank	☐	£30⅛	+⅛	£31⅞	£20⅞	3,865	1.5	21.0
Tiger Oats		1165xd	+5	1165	700	1,782	1.6	Φ
Toegaat-Hulett	†	1056xd	-50	1100	636	957.0	1.9	19.9

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is *indicated after the name.*

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on *Monday.*

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • *Highs and lows marked thus have been adjusted to allow for capital changes*
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ⚘ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- ¶ *Indicated dividend yield after pending scrip and/or rights issue.*
- ✦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda
UK Prof Advisers 0800 414181 Jersey 01534 71696
Private Clients 0800 414181 00 352 250404230
From O'seas (44) 1732 777377 Hong Kong (852) 848 1000

[illegible]

Prices for dealing December 12

Jupiter Tyndall (Bermuda) Ltd
PO Box HM 1258, Hamilton, Bermuda 001 809 292 2700
Jupiter Tyndall World Umbrella Fund Ltd

[illegible]

Newport Investment Management
73 Front street, Hamilton, Bermuda
Dealing: 01481 726268

[illegible]

Orion Fund Limited
6 Front St., Hamilton, HM11, Bermuda 441 292 6370
Orion Ord 7 $26.72

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

Saracin Funds Mngmt (Guernsey) Ltd
PO Box 246, St Peter Port, Guernsey 01481 722021

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 255, St Peter Port, Guernsey 01481 710651

[illegible]

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

[illegible]

Apollo Investment Management Ltd

[illegible]

Arab Bank Fund Managers (Guernsey) Ltd
AB International Fund Ltd

[illegible]

Bachmann Global Investment Fund Ltd

[illegible]

CIBC Fund Managers (Guernsey) Ltd

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

VIETNAM

Waiting for the market to deliver: the bulk of the economy remains within state control Reuter

The reform camp grows impatient

With red tape stalling progress, foreign companies are questioning the country's potential, say Kieran Cooke and Jeremy Grant

Next year Vietnam's official policy of *doi moi*, or economic renovation, will be a decade old. Many parts of the country have been transformed. In 1986 there were famine conditions in some areas. Now the shops and market places are full of fresh produce.

Capitalism is thriving on the streets of Hanoi and Ho Chi Minh City, formerly Saigon. The economy has moved from negative growth to a rapid expansion at rates similar to those of the other Asian "tigers". Gross domestic product has grown by an average of 8.2 per cent per year since 1991 and growth this year is expected to be 9.5 per cent.

But after its first flush of economic success, Vietnam is going through difficult times, with both locals and foreigners taking stock of the direction the country is taking.

In the run up to a congress of the ruling Communist Party due to be held in the middle of next year, conservatives and reformists in government are locked in battle.

The reformists, led by Vo Van Kiet, the prime minister, want to speed up the pace of change. Last month Mr Kiet told the National Assembly that reform of the financial system, the state sector and the bureaucracy was moving far too slowly. Mr Kiet stressed that, unless things were speeded up "the backward and ineffective nature of the economy" would be perpetuated.

But powerful conservative elements in the government are still suspicious of opening up the country to foreign influences and of any headlong rush towards economic liberalism. Hanoi says it is still pursuing the somewhat paradoxical policy of "a market economy under the control of the government".

Many of the foreign investors who rushed into Vietnam in recent years as the *doi moi* policy was accelerated are now questioning the wisdom of their actions.

Several highly publicised foreign withdrawals that have been announced over the past few months have dented the country's image as the new investment frontier. Total of France abandoned a \$1.2bn refinery project over arguments with the government about the siting of the facility. P&O of Australia withdrew from a badly needed port redevelopment in Ho Chi Minh City after year-long negotiations broke down. Other investors in smaller projects have packed their bags, frustrated at bureaucratic delays and often contradictory edicts.

Clearly, some investors harboured unrealistic ideas about the opportunities in Vietnam. "It's a simple case of false expectations by foreigners," says one Hong Kong based investor. "Look at what happened in China 10 years ago."

The main complaint for investors, both foreign and local, is the time and effort it takes for the necessary approvals to work their way through a cumbersome bureaucracy that is more in tune with the workings of a Soviet style centrally planned economy than with a market orientated system.

While investors were initially attracted to Vietnam by the low wage regime, delays and the shortage of essential services such as water and power have driven up costs.

The legal system is another bête noire for investors. Earlier this year the government passed a law reaffirming all land as the property of the state. This effectively prevents investors from using land as collateral for loans.

While such edicts are in place it is unlikely that Vietnam will be able to attract the large investments needed to repair its war-shattered infrastructure – the upgrading of which is essential to securing medium and long-term growth. According to the state planning committee, approximately \$20bn of infrastructure investment is needed over the next five years alone.

Other laws are viewed as confusing and inadequate to deal with the emergence of a modern economy. "It is unfortunate that other countries competing for similar investment often have more streamlined laws," says Tony Foster, chief representative in Vietnam for the Freshfields legal firm.

Official figures on inward investment are impressive – about \$17bn on nearly 1,500 projects has been promised over the past six years. However, there is a glaring gap between approval and implementation. It is estimated that only about 20 per cent of projects have been started.

Aid disbursements have been painfully slow, with Japan, the biggest donor, already chafing about lengthy absorption rates. Last year Vietnam's international donor consortium pledged \$2bn in aid yet estimates are that only about 25 per cent of that amount will be disbursed in 1995/96 because of bottlenecks in the financial system and elsewhere.

While there has been an often chaotic rush towards an open market and competition in some sectors, the bulk of the economy remains within state control. Only three out of an estimated 6,000 public concerns have so far been sold off. Much of the banking sector is insolvent and unable to harness funds for development. The formation of a proper capital market is still some way off. A stock exchange is unlikely to be opened before the end of next year.

"Vietnam has a serious case of indigestion," says one foreign fund manager. "There is about \$400m in foreign funds, plus several hundred million in various private ventures, ready for investing in the country. But it can't be absorbed. The system is just not ready for it."

The government is often remarkably candid about its mistakes and shortcomings. Mr Kiet says the economy is trapped in a "vicious circle" of low productivity, low savings and low investment. "In the areas of budget management, financial and monetary controls and taxes there are many hot spots, many problems," the prime minister told the National Assembly.

Politically, the Communist Party remains at the apex of power and there is no sign of it wanting to loosen its grip. A comprehensive state security apparatus remains firmly in place, largely unchallenged by the economic reform process. "We have to further strengthen the leadership of the party over government, over the entire political system and over the renovation process initiated by the party itself," President Le Duc Anh said in a speech earlier this year.

Party conservatives are worried about the side effects of reform. Their main concerns are widespread corruption, damage to the healthcare and education systems caused by loss of subsidies, and the widening gap between urban newly rich and peasant farmers, who make up 75 per cent of the population and form the bedrock of party support. Few suggest any reversal in the *doi moi* process but there could be a change of emphasis.

Some badly needed changes have been made. Last month several ministries and state bodies were amalgamated in an attempt to streamline government and cut down on red tape.

But even if Mr Kiet and others succeed in pushing through more reforms, there is no guarantee that they will be adopted throughout the country. Although much of the economy remains centrally controlled, local Peoples' Committees and other pressure groups often have considerable power and at times contradict central government decrees.

Vietnam has notched up several successes on the foreign policy front this year, such as normalisation of diplomatic relations with the US. Perhaps the stimulus for further internal reform will come from another foreign policy triumph – Vietnam's entry into the Association of South East Asian Nations (Asean).

Vietnam sees several advantages in Asean membership, not least of which is being able to use the group as a bulwark against any pressure from China, the country's traditional enemy. But Asean membership brings with it challenges as well as benefits. Vietnam must adapt its economy to fit in with the workings of the group, cutting tariff barriers and further liberalising its economy.

"There is very big pressure on Vietnam now," says Madame Pham Chi Lan, Secretary General of the Vietnam Chamber of Commerce and Industry. "If we fail to adapt to the new atmosphere in the region we cannot be successful."

IN THIS SURVEY

■ **Economy:** by Jeremy Grant

Success hangs in the balance

Despite four years' growth, ambitious targets mean the danger is of high spending affecting inflation and the current account

For a country that for decades learned more from the textbooks of Marx than the market economy, Vietnam is doing remarkably well.

Gross domestic product growth in 1994 was 8.8 per cent, mainly on the back of rapid growth in construction, increased exports and industrial growth. Ho Chi Minh City, the country's engine of growth, grew by almost 15 per cent, although there are signs that Hanoi and the north is catching up.

Prime Minister Vo Van Kiet told last month's National Assembly that the economy was expected to grow 9.5 per cent this year, with industry expanding by 14 per cent. Agriculture, still the backbone of the communist-ruled country's economy, would grow by 4.7 per cent, stunted by the effect of damaging floods earlier this year.

Nevertheless, exports – mainly oil, rice and coffee – were 30 per cent higher than in 1994 at \$4.7bn.

"The main thing is staying on course in terms of macro-economic management," says Bradley Babson, resident representative of the World Bank.

But despite the past four years of successes, Vietnam has reached an economic crossroads. Inflation, which in 1988 raged at about 300 per cent, was brought down to 5.2 per cent by 1993.

However, consumer prices have increased ominously by 17 per cent in the year to September, compared with 14.4 per cent in 1994 and 5.7 per cent in 1993. Economists fear that the indicator could climb back up to alarming levels on the back of rapid economic growth unless the trend is checked.

Although domestic savings accounted for some 17 per cent of growth in 1994, far above the paltry 7.4 per cent recorded in 1990, economists say that this is still too far below average levels in the region and compares unfavourably to that of China, where the rate is about 35 per cent.

Although the fruits of *doi moi* are evident in the main cities – where cars are becoming more common and many residents have been busily converting their homes into mini-hotels or small shops – the countryside lags far behind. Since agriculture employs more than than 70 per cent of the workforce and accounts for more than 50 per cent of total expert volume, this could act as a drag on growth.

However, the economists sound greatest alarm over investment inflows, which, though increasing, will not be enough to sustain industrialisation.

The World Bank, normally upbeat on Vietnam, has in its latest report tempered its praise with a warning that Vietnam must demonstrate more enthusiasm for developing the nascent private sector if growth is to be sustained.

"Despite the success of state enterprise-led industrialisation since 1991, a strategy based on developing large, capital-intensive state enterprises, protected from foreign and domestic private competition and concentrated in selected 'strategic' sectors, would not deliver the kind of industrialisation Vietnam needs," said the World Bank report.

Vietnam's private sector is restricted to small-scale enterprises such as food processing and the manufacturing of garments and some consumer goods. Vietnamese private businessmen complain of an unequal playing field on which they are forced to compete with privileged state-owned enterprises (SOEs).

> **Hanoi appears set on maintaining the state sector's dominance of key sectors of the economy**

"The state sector has a monopoly of many high profit businesses like telecoms, real estate, export and import but the private sector is not allowed to take charge of them," says Bui Huy Hung, president of Vietnam Joint Stock Commercial Bank, one of a handful of share-holding banks.

"This is the biggest obstacle to the transition to the market economy."

Despite a vigorous campaign by Hanoi that has cut the number of SOEs to 6,000 from 12,500 since 1990, Hanoi appears set on maintaining the state sector's dominance of key sectors of the economy. Foreign economists point out that most of the SOEs closed down as part of the downsizing were small, town-based units in the provinces, with little economic clout, even collectively.

In mid-1994, Hanoi formed 14 conglomerates in sectors such as electricity, cement, textiles and rubber. "The idea is to increase competition and to form more commercial establishments," says Phan Van Tiem, chairman of the government's *State Enterprise Reform Committee*, admitting that Vietnamese policy makers are using the chaebol of South Korea as one model.

Foreign economists and the World Bank suspect that the creation of such conglomerates may be just another way of strengthening SOE control over the economy, saying that rubber scarcely qualifies as a strategic industry.

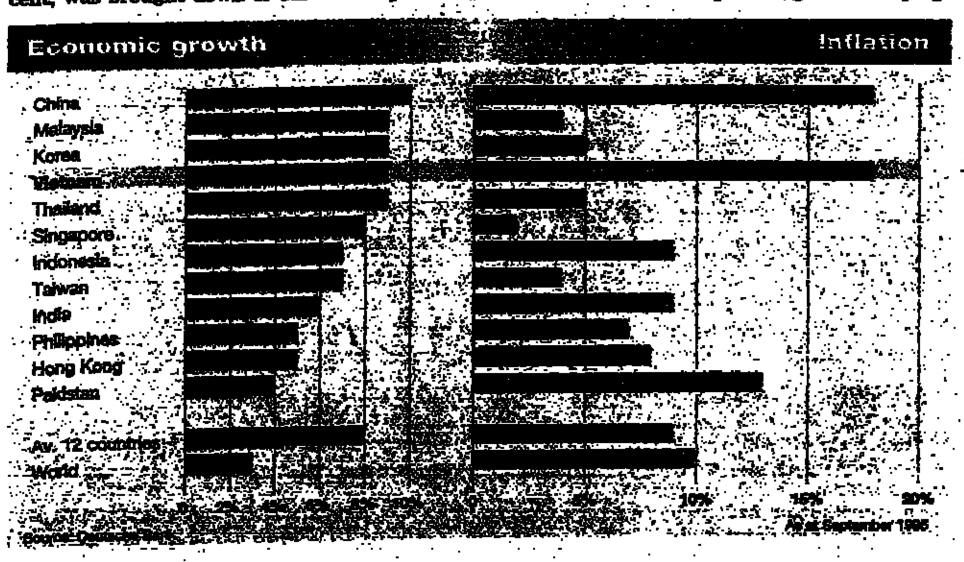
"They cannot do this with the state sector as the centre of gravity," says one foreign economist.

Economists see an urgent need to mobilise domestic savings – estimated at about \$2bn – and channel them into the banking system. Progress on this has been slow due to traditional mistrust of banks and despite the launch this year of a series of domestic treasury bill auctions ultimately aimed at the retail market.

In the meantime, Vietnam hopes to meet some of its spending needs by issuing its first government bond internationally early next year. Merrill Lynch and Nomura have been picked by the ministry of finance to handle the issue, which would be a \$100m Eurobond.

The International Monetary Fund and the World Bank have made it plain that Vietnam would need to clear its in commercial arrears – roughly \$800m – before any issue goes ahead, but Hanoi is keen to move as fast as possible with huge sums needed for infrastructure, education and healthcare.

"Vietnam has ambitious targets and the danger is that they are going to spend too much too quickly, and that could affect inflation and the balance of payments," said a foreign economist in Hanoi.



■ **Foreign investment:** by Jeremy Grant

Dissent in the ranks

Overseas ventures are dismayed by the scant evidence of a reduction in bureaucracy

"There will be doubters. There will be cynics. There will be resistance in some quarters," declared a foreign joint venture partner at a ground-breaking ceremony for a construction material project in Vietnam in July.

This is hardly the language of a confident foreign investor in Vietnam but, increasingly, it has come to represent a growing mood of dissatisfaction among the thousands of foreign investors who have flocked to the country since it opened its doors to foreign money in 1989.

Yet to judge from the figures, Vietnam would appear to be basking in a warm glow of foreign attention. Foreign investment promised so far in the country – as opposed to money actually at work – amounts to $17bn, against $10bn a year ago. A World Bank reported published last month puts actual inflows of foreign investment funds so far this year at $612m, with the figure projected to rise to $919m in 1996

Most of the money is being put into oil and gas, hotels and tourism, property and light industry. In July this year, 58.1 per cent of foreign investment was from Asian countries other than Japan, 14.4 per cent from western Europe and 10 per cent from Japan, according to the World Bank. Funds from the US accounted for 5.9 per cent.

The Taiwanese and investors from Hong Kong still top the investment league table, as they have done since their early arrival in Vietnam in the early 1990s.

However Japan, Singapore and South Korea have edged up the rankings at the expense of France, Australia and the UK. Since President Bill Clinton removed the trade embargo on Hanoi last year and in August this year normalised relations, US interest has been keen, pushing the amount of investment funds promised to $994m last month from $187m, the same time a year ago, according to the State Committee for Co-operation and Investment (SCCI).

However, for foreign investors and Vietnamese, the last year has involved a sharp and *sometimes painful learning* curve for both sides. Joint ventures have gone awry, investors have pulled out of high profile projects and there have been shrill calls in the Vietnamese media for curbs on the amount of equity foreign investors are allowed to take in joint projects.

In April, the Swiss inspection agency Société Générale de Surveillance (SGS) parted company with its Vietnamese partner because of irreconcilable differences. Two Japanese companies abandoned plans for a supermarket and a steel venture respectively in Hanoi after the Vietnamese told them that they were investing too little.

There is an increasing tendency for foreign investors to explore wholly-owned foreign ventures as a way of avoiding what they see as the more *troublesome joint venture.*

Investors also appear to be doing a lot more complaining. Capricious decisions by provincial authorities are still all too common in an environment where the government is supposed to make and implement policy. Despite regular assurances from Vietnamese officials that red tape is being cut and overlapping investment laws are being disentangled, investors see few tangible results.

One motor manufacturer that was recently given a licence after a five-month wait is still unable to settle import quotas and foreign exchange guarantees without having each request stamped by a special seal, for which a special application has to be made.

"Everyone is far more concerned about the stamp than the substance of the request," he said.

Brewing companies, which account for a large slice of foreign investment, are also disgruntled. Although they are allowed to convert revenues in the local currency, the dong, into hard currency for profit repatriation, they need a guarantee in writing from the central bank in order to do so. Such guarantees last only about six months, hardly a recipe for long-term planning, foreign bankers say.

Worries have surfaced over Vietnam's eagerness to accommodate as wide as possible a range of competing investors into one sector, ostensibly in the interests of free market economics.

In the car industry, Hanoi has so far licensed 12 foreign manufacturers, ranging from Chrysler and Ford of the US and Toyota of Japan to *smaller, less experienced players* such as Hyundai. The fear is that, having allowed so many investors in, none will be able to carve out a profitable piece of the small Vietnamese auto market. Industry experts warn that fierce competition as well as neighbouring Thailand's ambitions of producing 1m cars by the year 2000 could force some car makers out of Vietnam.

Some observers believe that the strategy could be deliberate. "It seems that they prefer letting everyone come in and compete, watching who's going to survive and shaking hands with the winner," says Shiro Sadoshima, counsellor at the Japanese embassy in Hanoi.

In a move to improve the environment for foreign investors, last month's National Assembly meeting approved the long-awaited merger of the SCCI – which has licensed all *foreign investment since* Vietnam's reforms began – with the State Planning Committee (SPC).

However, some businessmen are not convinced of the wisdom of dovetailing a body driven by business interests with another preoccupied with formulating national strategies.

Economists say that Vietnam now needs to attract big-ticket foreign investors in order to re-build its crumbling infrastructure. The World Bank recently managed to convince Hanoi to allow a private build-operate-transfer (BOT) scheme on the second phase of the Phu My power plant, near Ho Chi Minh City in Ba Ria-Vung Tau province. The move is seen as setting an important precedent for other projects.

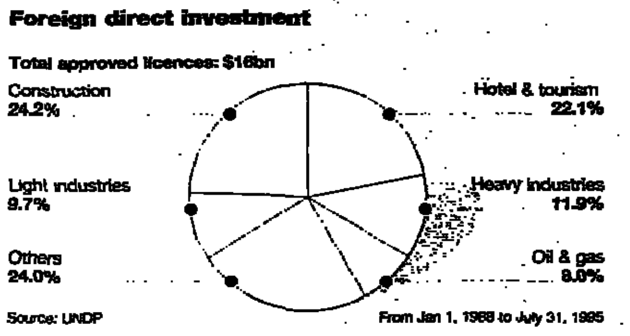
However, investors such as the Japanese are still holding back until the investment climate is more secure, despite Vietnamese desires to see them occupying pole position in future.

"We walked along a similar path in China," says Mr Sadoshima. "The Chinese used to ask why the Japanese were so slow. It took a few years before Japanese investment began to pick up."

In the meantime, the South Koreans, in particular Daewoo, have piled in to the country. Daewoo recently signed a joint *venture for a $1.2bn industrial* zone just outside Hanoi and has scores of other projects planned. Other Asian investors still dominate but the Vietnamese are determined to woo what they see as the serious players.

"We appreciate that they [Hong Kong and Taiwanese investors] came very early because at least these projects created an atmosphere. It's the price we had to pay," says Bui Huy Hung, deputy director of the office of the SCCI. "From now on we will start to highlight high-tech projects and modern technology. We want to diversify to have other dishes in the meal."

Foreign direct investment



■ **Banking:** by Kieran Cooke

Still to grasp the nettle

Despite moves toward private ownership in the financial sector, reformers are growing impatient with the pace of change

Vo Van Kiet, Vietnam's prime minister, takes a dim view of developments in his country's financial sector. "The financial system is not keeping pace with the development of the economy," Mr Kiet told a meeting of the National Assembly last month. "Our capital markets are still too primitive. We have been too slow in the equitisation of state companies as well as in the establishment of a stock market."

Mr Kiet said Vietnam's economic progress would be in jeopardy if the financial system was not modernised. "To perpetuate this situation is to perpetuate the backward and ineffective nature of the economy," said the prime minister.

Though Mr Kiet and other reformers in government might be impatient about the slow pace of reform in the financial sector, Vietnam has come a long way from the old, Soviet style system in place when the official policy of *doi moi* or economic renovation was announced nearly 10 years ago.

The State Bank of Vietnam (SBVN) has separated off its former commercial operations and has evolved to play the role of central bank. Below the SBVN a new structure of four state-owned commercial banks, specialising in trade, development, industry and agriculture, have been established.

Under 1990 legislation the first tentative moves towards limited private sector banking were made with the establishment of shareholding joint stock banks and foreign joint venture banks. Nearly 50 joint stock banks are now operating as well as three foreign joint venture banks. Foreign banks have been allowed to open a limited number of branches. More than 60 foreign financial institutions have either branches or representative offices in Vietnam.

Below these banks are more than 200 credit co-operatives and credit funds, mostly operating in rural areas. Other aspects of the financial sector are limited. A bond market is emerging to feed the country's ambitious development programme. But the establishment of a stock market, originally planned for this year, has been postponed due to ideological unwillingness on the part of some in authority to sell off state enterprises, a lack of proper financial market laws and a deficiency in accounting methods.

According to a recent World Bank report Vietnam is an "underbanked" country, with total assets in the banking system at the end of last year amounting to 48 trillion dong, equivalent to 29 per cent of gross domestic product. This is a level well below that of most Asian countries. Conversely Vietnam is "overbanked" in that there are too many financial institutions chasing too few assets in the system. Most analysts say a shake-out among the banks is inevitable.

Many of the new joint stock banks are seriously undercapitalised or insolvent. The state banks lack proper audit controls. Foreign bankers who rushed to Vietnam in anticipation of big business are rethinking their strategy. It is likely some will decide that operating costs are too high to justify staying any longer.

A Ho Chi Minh City-based foreign fund manager says Vietnam is not a truly monetised economy. "More than 70 per cent of the labour force is involved in agriculture where barter is more important than cash."

There is still considerable distrust of banks. Though average per capita annual income is only about $220, substantial savings exist outside the banking system.

Frightened by the soaring inflation of the early 1980s and sudden policy changes, such as the mid-70s unification of northern and southern currencies, most people have kept their savings in foreign currency, gold or precious metals rather than in the banking system.

Branching out: more than 60 foreign financial institutions have offices in Vietnam Reuter

Harnessing these savings is essential if development targets are to be achieved. Yet even with such funds in the system, banks are constrained by macroeconomic policy objectives. A high interest rate regime is maintained to fight inflation, at present running at an annual rate of about 15 per cent. "We have difficulty finding good customers to lend to at rates which run at about 25 per cent for short term loans," says Huynh Buu Son of the Saigon Bank for Industry and trade – a joint stock enterprise.

"The idea of central bank policy is to battle inflation and keep the dong strong. But because of high interest rates we have become far too reliant on foreign funds for borrowing. People can borrow short-term dollars at about 9 per cent. There are too many dollars in the system. The dong is strengthening to a level that it is beginning to hurt exporters. A more market orientated view needs to be taken by the authorities."

However, the banking system is still dominated by the state rather than the market, attuned to serving large public conglomerates rather than the needs of the private sector. According to World Bank figures, the four state-owned commercial banks accounted for nearly 90 per cent of total assets held by deposit money banks at the end of last year. Private sector lending has tripled in the past three years, most of it in the form of short-term loans – mainly to the agriculture and commerce sectors. But state companies still account for more than 60 per cent of total bank credit.

Analysing the financial affairs of the state enterprises is difficult as auditing methods do not conform to international standards and there is little transparency in company operations. The government says only 9 per cent of the state companies are losing money. This is viewed as a serious underestimate. While the number of state companies has been reduced by nearly 50 per cent in recent years to 7,000, many are still believed to be either insolvent or in a precarious financial position.

"The state banks are dangerously overexposed to bad debts in the state sector," says a resident foreign banker. "The government has pushed through reforms in some areas but it is still stopping short of dismantling the numerous state firms that are inefficient and a drain on precious resources."

There are other handicaps to the development of the banking sector and ancillary financial services. The legal framework governing the sector is still inadequate. Borrowers are unable to use land as collateral to raise loans as the government has declared all land to be the property of the state. Recent legal changes might bring some improvement but analysts say several grey areas in the law need to be cleared before any real progress in financial services is made.

For years Vietnam devoted its educational energies to producing engineers and technicians rather than bankers and financial managers. There is now a serious shortage of financial sector expertise. There have been many changes in recent years. But Mr Kiet and others clearly feel the pace has to be speeded up.

■ **Settling debt to Hungary:** by Jeremy Grant

Friendly ties pay dividends

An imaginative solution has been found to settling Hanoi's debts with its former patrons

While foreign economists focus their attention on Vietnam's move towards the market economy, an intriguing deal is being tied up right under their noses, demonstrating that Hanoi's economic ties with its former eastern European patrons are far from dead.

The story so far. Vietnam's outstanding debt to Hungary amounts to 300m transferable roubles but both sides have been unable to settle on an acceptable exchange rate.

Indeed, negotiations over Vietnam's approximately 11bn rouble debt with the former Soviet Union has been stalled for years due to haggling over what rate should be used to settled Vietnam's arrears.

However, HIB Trade, a subsidiary of Hungary's Foreign Trade Bank, has come up with an imaginative solution to settling part of Hanoi's debts with Budapest.

The Hungarian and Vietnamese governments have agreed to allow HIB Trade to go ahead with a South American-style debt-for equity-swap that would allow the Hungarians to assume ownership of a bulb factory in Hanoi, originally established with the help of Hungarian bulb manufacturer Tungsram.

In exchange, HIB Trade will assume a portion of Vietnam's debt and will pay an arranged price for the debt to the Hungarian government, which HIB Trade is not prepared to disclose.

Vietnam's State Committee for Co-operation and Investment (SCCI), now amalgamated with the former State Planning Committee, licensed the deal in August.

The gamble HIB Trade is taking is to find an operator for the factory, named Rang Dong, and an investor prepared to pump $10m into making it a going concern.

Tungsram was to have upgraded the plant in the early 1990s but was forced to abandoned the project in 1989 when communism collapsed in eastern Europe.

Tungsram, now owned by General Electric of the US, had shipped modern equipment to the factory in the late 1980s, but the equipment has remained mothballed awaiting further funds for the modernisation of the factory.

"The governments were never going to agree on the exchange rate. Instead of haggling on a rate that would lead nowhere we agreed on a price [for a portion of the debt]," says Andras Ujlaky, managing director of HIB Trade in London.

Trade between Vietnam and Hungary has risen to $35m in 1994 from $22m in 1988, according to the Hungarian trade office in Hanoi.

Although Vietnam had gradually been settling some of its debt through barter trade, HIB Trade saw that a faster debt-settlement mechanism would be needed. "Budapest is not interested in any assets: they want cash," says the debonair Mr Ujlaky.

In Hanoi, production has ploughed on uninterrupted using older methods dating from the 1960s, when former Vietnamese President Ho Chi Minh declared the factory open as Vietnam's first, showcase lighting project.

A golden statue of Ho still stands in the factory's main compound, marking his visit to the facility in 1964. Nearby, workers take shifts in a sweltering work area, blowing glass by hand in ancient moulds to produce large bulbs. Smaller 60 watt bulbs are produced by Chinese stamping machines.

Vietnam's only other bulb factory is near Ho Chi Minh City in the south. "We know the theoretical capacity of the [Rang Dong] factory, which is 26m bulbs a year. What we don't really know is the extent of the smuggling of the bulbs," says Mr Ujlaky.

This is perhaps the biggest problem facing any potential investor. Large-scale smuggling, mainly from Thailand and China, makes it difficult for locally-made bulbs to compete, despite pledges from the authorities to stamp out the illegal trade.

So far, a British merchant bank and other investors have expressed an interest in the project but none has made any firm commitments. Nevertheless, if an investor can be found, the deal would be the first ever such debt swap deal concluded in Vietnam.

Mr Ujlaky says that traditional friendly ties between Budapest and Hanoi were crucial to the deal coming this far. "I think that this plays a role. It was instituted at a fairly high governmental level," he says. "If we're successful we'd like to market our services to the Russians."

■ **Agriculture:** by Kieran Cooke

Not yet on the fast track

While progress has been made, the sector's growth rate lags behind that of other industries

Backbone of the nation: Vietnamese society is still overwhelmingly rural — Sarah Murray

When Do Muoi, the general secretary of Vietnam's Communist Party, spoke at an anniversary celebration of the national farmers association last month he praised those in rural areas for their long years of hard work and suffering. "Without agriculture, there can be no stability," said Do Muoi. He described farmers as the backbone of the nation – a vital part of the economy and an important political force.

The statistics demonstrate the central role the farming community plays in the social and economic life of the country. Vietnamese society is still overwhelming rural. The agricultural sector employs more than 70 per cent of the labour force and accounts for more than 50 per cent of total export volume. Agricultural exports were worth about $1.5bn last year.

Since the official Do Moi or renovation policy was launched – nearly 10 years ago – agriculture's share of overall economic output has been steadily decreasing while that of the industrial and services sectors has been growing. Nonetheless, agriculture accounted for 34 per cent of gross domestic product in 1994 – down from 40 per cent in 1990.

Recent performance in the sector has been mixed. There have been considerable achievements. In 1989, the country was a net rice importer, unable to grow enough grain to feed its 72m people. Today, Vietnam is the world's third biggest rice exporter after the US and Thailand.

More and more farms are growing cash crops, such as coffee, rubber, sugarcane and cashew nuts. Land is being rehabilitated. New irrigation schemes are being put in place.

But agriculture limps behind the fast track development of other sectors. While the overall economy has been growing at rates of between 6 and 10 per cent in recent years, agricultural output went up by 3.9 per cent in 1994.

Aid organisations say per capita income in Vietnam is about $220. However, that figure masks considerable disparities between rural and urban areas. In Ho Chi Minh City, average incomes per year are approximately $850. In Hanoi the figure is about $550. In many rural areas farmers earn only about $100 per year.

A recent World Bank survey said 51 per cent of Vietnam's population was living at or below the poverty line. Much of the rural economy is not monetised – many transactions take the form of barter rather than financial payments.

The government recognises the seriousness of the problems in rural areas. "Production remains backward, infrastructure is almost non-existent and product quality is poor," says Mr Do. Social instability could result from the rapid movement of people from the land into urban areas.

Food production has constantly to be increased, both to feed a fast expanding domestic market (40 per cent of Vietnam's population is under 15 years old) and to build up vitally needed export revenues.

"We cannot get rich through food production," says Phan Van Khai, the deputy prime minister. "But without guaranteeing safe food supply for 80m people by the end of the century, there will be no stability for development."

The fortunes of the agricultural sector have fluctuated because of various government policies and the impact of the weather. Government attempts to collectivise agricultural production in the north in the 1950s and in the south in the 1980s resulted in serious shortages and famine with farmers rejecting the communist style centralised marketing system.

The weather continues to wreak havoc with production. In each of the past two years, more than 1m tonnes of rice has been lost due to flooding. Despite this, record crops have been produced. According to government projections 26m tonnes of rice and paddy equivalent will be harvested in 1995, up from 24.5m tonnes last year.

Further large-scale rice production increases are hampered by a number of factors. The agricultural sector is chronically short of capital. Much of the rice harvest is of generally low quality. An inadequate marketing system has resulted in shipment defaults. Vietnamese rice fetches $50 to $100 per tonne less than Thai rice on the international market.

Money is needed to improve warehousing and harvesting techniques. Some international aid agencies estimate that as much as 25 per cent of the rice crop is lost each year due to a lack of adequate storage facilities and poor harvesting methods.

Expanding agricultural production is limited by Vietnam's population density – one of the world's highest. Sixty per cent of rice is produced in the Mekong delta region in the south while the rest is mainly produced in the northern Red River delta area. Both areas are over populated: the Red River delta contains nearly 900 people per square kilometre. Land plots average only 0.5 hectares.

Earlier this year the government announced a ban on using rice land for other purposes. The decision was a controversial one. Some Vietnamese argue that more land should be given over to industrial projects that are capable of generating jobs and higher revenues.

Though Vietnam has benefitted from an increase in world rice prices this year, problems have been caused at home. Inflation in 1993 was just over 5 per cent. In 1994 it increased to more than 14 per cent and this year it is likely to rise to 15 per cent – caused in large part by a steep increase in foodstuff prices, particularly rice.

The problem has been exacerbated by widespread smuggling of rice, especially to China. Many shipments of rice from the south to the rice starved north have gone astray. Estimates are that as much as 1m tonnes has gone across the border into China where prices are up to 30 per cent higher than on the domestic market.

The government has taken measures to halt the smuggling, which it says is threatening the nation's economic progress. At one stage this year rice exports were banned.

The government has also announced plans to create two state enterprises which will have a virtual monopoly on rice distribution and trading. Foreign traders complain that centralising the rice business will create more problems than it will solve. In the past such enterprises have been inefficient and corrupt.

The outlook is brighter for other crops. Coffee, backed by a sharp rise in world prices, has enjoyed a spectacular come-back. Luu Viet Huong, a manager of the state run Vinacafe firm in Ho Chi Minh City, says coffee has now replaced rice as Vietnam's second biggest export revenue earner after oil. Coffee exports last year were worth more than $400m – 10 per cent of the export total.

Ambitious government plans call for the doubling of land used for coffee planations over the next five years.

Cashew nuts have been another success story. Vietnam has become the world's third largest producer.

Extensive work is going on to rehabilitate rubber plantations, many of which were destroyed during the war. However capital shortages and a serious lack of processing capacity is hindering onward development.

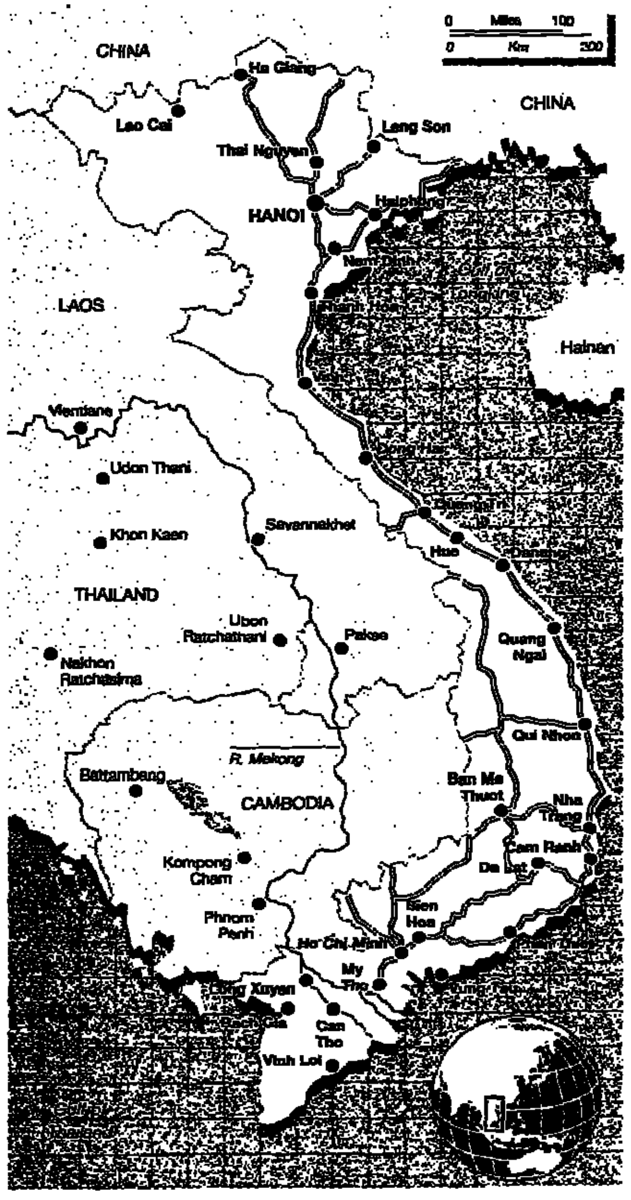
Foreign investors are beginning to take an interest in Vietnam's food processing industry. Last month Tate & Lyle of Britain agreed to establish a $71m sugarcane processing plant. Other foreign firms are looking at joint ventures in various enterprises, including fisheries.

The battle to modernise Vietnam's agriculture is only just beginning.

■ Key facts and economic indicators

Currency	Dong (US$1=11,084 dong)
Population	
Total	74m
Density	223 persons/km²
Growth rate	2.2%
Distribution	
Urban:	20%
Rural:	80%
Under 25 years	58.9%
Proportion of females	51.5%
Infant mortality rate (1994)	38/1,000
Life expectancy (1992)	
Male:	63 years
Female:	67 years
Gross domestic product	
By sector (%) 1995 estimates	
Industry and construction	30.3
Agriculture, forestry and fisheries	27.2
Services	42.5
Growth (%)	
1994	8.8
1993	8.1
Average (1991-93)	7.6
Average (1986-90)	3.9
Growth by sector (%) 1994	
Agriculture	3.9
Industry	12.9
Construction	19.4
Services	10.2
Import and export value Jan-Aug 1995	
Exports	Total: $3,086m
Crude oil	5,070,000 tonnes
Coal	1,922,200 tonnes
Tin	2,351 tonnes
Garments	$380m
Tea	8,100 tonnes
Coffee	130,300 tonnes
Rubber	65,400 tonnes
Nuts	77,200 tonnes
Sea products	77,200 tonnes
Imports	Total $3,640m
Tourist arrivals	
1990	250,000
1991	300,000
1992	440,000
1993	670,000
1994	1,018,000
Oil production (m tonnes)	
1993	6.3
1994	6.9
Jan-Aug 1995	5.1
1995 (estimate)	7.7

Sources: General Department of Statistics, State Planning Committee, UNDP, Petrovietnam



■ Government

President	Le Duc Anh
Prime minister	Vo Van Kiet
Deputy prime minister	Phan Van Khai
General secretary of the Communist Party	Do Muoi
Foreign affairs minister	Nguyen Manh Cam
Finance minister	Ho Te
Deputy finance minister	Nguyen Sinh Hung
Minister of trade	Le Van Triet

■ **Foreign policy:** by Kieran Cooke

Joining a successful club

After years of isolation, Hanoi has acquired considerable international clout by becoming a member of Asean

Events have been moving at a brisk pace on Vietnam's foreign policy front recently. "Our country has expanded relations with the world at a rate faster that at any period in our history," says Nguyen Manh Cam, the foreign minister.

This year saw three main breakthroughs. After years of argument over the missing in action issue, Washington finally agreed to normalise its diplomatic relations with Hanoi. Vietnam also concluded a substantial agreement with the European Union, paving the way for an expansion in trading relations.

However the foreign policy event that promised to be of more immediate significance took place in July when Vietnam become the seventh member of the Association of South East Asian Nations (Asean). A Vietnamese official attending the simple ceremony at an Asean meeting in Brunei summed up the prevailing mood among the Vietnamese delegation.

"We have joined one of the world's most successful clubs. It is a great day for us."

The event was not without irony. Asean was formed in the late 1960s – at the height of the Vietnam war – mainly to counteract what was seen as a growing communist threat in the region. For many years Asean led the diplomatic offensive at the UN and elsewhere against Vietnam's occupation of Cambodia.

Vietnam withdrew its last troops from Cambodia some time ago – but it is still a communist run country, although few would now perceive it as threat to southeast Asia's stability.

Asean membership has several benefits for Vietnam. Most importantly, after years of virtual diplomatic and economic isolation, Hanoi has joined the mainstream. Asean encompasses some of the world's most dynamic economies. The organisation's economic strength is being matched by growing political influence. Alone, Vietnam would struggle to have its voice heard on the world stage. As an Asean member it will have considerably more clout in international affairs.

For most of its history China, rather than more recent enemies such as France and the US, has been seen as the greatest threat to Vietnam's independence. Relations between Beijing and Hanoi have improved in recent years. China has become one of Vietnam's biggest trading partners with total official trade expected to reach $1bn this year, up from $270m in 1992.

But Hanoi remains deeply suspicious of Beijing. Vietnam's last military engagement with China took place as recenlty as in 1979. Rival claims to islands in what Vietnam calls the Eastern Sea (rather than the South China Sea) could result in conflict. Beijing wants to settle various rival claims in the area through bilateral negotiations. Vietnam now insists that such issues should be handled through Asean. "This is not just an issue between us and China," says Vo Van Kiet, the prime minister. "It is a matter for the whole region."

Membership of Asean also carries considerable potential economic benefits. The fast developing countries of Asean have the capital resources for investment overseas. Already Singapore is one of the biggest investors in Vietnam. Intra-Asean trade is expanding fast and Vietnam's exporters are already exploiting the potential of the large market on their doorstep. According to official figures, about 30 per cent of Vietnam's total trade now takes place with Asean. "We are not talking about assistance," says Vu Khoan, vice-minister at the ministry of foreign affairs. "We are talking about co-operation. Joining Asean, we have a greater chance to expand our market."

Vo Van Kiet: rival claims to islands in the area are now 'a matter for the whole region'

But Asean also poses considerable challenges. Vietnam is the organisation's poorest member. Its economy is the least developed. Under the Asean free trade agreement (Afta), the organisation plans to abolish most trade tariffs by the year 2003 – possibly by 2000.

While Vietnam has been given until 2006 to conform to the Afta proposals, there is a great deal of scepticism about whether the country will be able to make such adjustments. Vietnamese fear their economy might be swamped by richer, more advanced neighbours. Per capita income in Vietnam is only about $220. In Singapore the figure is $22,000.

While Asean has welcomed Vietnam's membership, there are private concerns that Hanoi might not be ready to make the sort of negotiating compromises common within the organisation. "Vietnam is a tough negotiator and a fierce defender of its interests," says a Hanoi diplomat. "Asean will find Vietnam is no easy push-over."

Disputes are also likely to erupt with fellow Asean members. Vietnamese and Thai fishing boats have been fighting over fishing rights in waters surrounding their countries. Vietnamese traders are up in arms about increased port charges in Singapore – the main transshipment point for Vietnam's exports.

Trade is the driving force behind relations with other countries in the region. Taiwan and South Korea continue to be the largest investors in Vietnam. Australia has put a great deal of effort into establishing extensive economic links.

The euphoria surrounding the normalisation of relations with the US has quickly faded. US investors have not rushed in to Vietnam. Hanoi has privately voiced its displeasure about Washington's stress on human rights. Vietnam might want more relations with the outside world but its government still wishes to keep what it regards as its own affairs hidden from the prying eyes of foreigners.

For Hanoi the next step is to gain Most Favoured Nation status from the US, which would enhance trade considerably. Vietnam says such recognition is still some way off, as is membership of the World Trade Organisation and the Asia Pacific Economic Conference.

Mr Cam, the foreign minister, says Vietnam has achieved a great deal. It must become used to its new set of relationships. "Now it is time to deepen our new foreign relations with countries and international organisations, to grasp opportunities and accelerate Vietnam's development."

Infrastructure: by Jeremy Grant

Foreign investors losing their fervour

Overseas operators are put off by bureaucracy and the uncertainty of returns

Crumbling: only 40 per cent of the road network is paved — Sarah Murray

Despite Vietnam's eager courting of foreign money into its dilapidated infrastructure, foreign interest appears to be flagging in a sector plagued with red tape, legal uncertainty and where hard currency returns are far from guaranteed.

Earlier this year, two Malaysian companies took out advertisements in Vietnamese newspapers to trumpet the approval of what was then the country's first foreign build-operate-transfer (BOT) project.

Today, the $30m water treatment project for Ho Chi Minh City is behind schedule, bogged down in discussions over land use rights, one of the technicalities that experts say make BOT so difficult in Vietnam.

The Malaysian project, funded by Emas Utilities Corp and Sadec Malaysia Corp, is itself a measure of investor hesitation in BOT, coming a full two years after Vietnam promulgated a BOT law. It is also still the only BOT project in the country.

"The interest [in infrastructure] that was initially shown has not been sustained," says one European roads contractor. "The people that were here two years ago looking around are either not here or are not back again with the same fervour," the contractor added.

Vietnam hopes to attract $7.8bn into roads, ports, airports and other infrastructure by the year 2010, 60 per cent of which it hopes will come from foreign sources and much of it through BOT.

The need is acute. Years of war damage have left the country with installed electricity capacity of only about 3,500 megawatts, no more than 500,000 telephone lines for a population of 74m and a crumbling road network of which only 40 per cent is paved.

Yet, however great the need, industry experts say BOT, particularly for highway projects, is difficult to justify in a country with extremely low traffic volumes and a frail road network. They say that any BOT road project relying on toll revenues would have difficulty making ends meet when few Vietnamese can afford cars and commercial vehicle ownership is still out of the reach of most Vietnamese companies.

Traffic on most of Vietnam's roads is as thin as it is chaotic. Routine journeys out of Hanoi on Highway One, which snakes southwards to Ho Chi Minh City, involve nightmarish duels with swerving cyclists and slow-moving ox carts. What little motorised traffic there is consists of battered east German buses overloaded with passengers and farm produce.

"There aren't that many projects on which you could recoup your money through BOT because the market isn't there," says Cameron McCullough, chief representative for lawyers Deacons Graham and James in Hanoi.

Foreigners considering larger scale BOT investment such as power and ports have additional concerns. Confusion over recent changes to the land law has cast doubt on the ability of foreign investors to use land as collateral for financing purposes.

All land in Vietnam is owned by the state but Hanoi has not yet made it clear precisely how land use rights certificates, the next best thing to freehold title, can be taken as collateral instead.

"One of the things is the need for stability on the legal concept of land use," says Lawrence Reddaway, country representative for British consulting engineers Scott Wilson Kirkpatrick.

Progress on the Malaysian water treatment project was delayed because the foreign side still did not have sufficient title to the land needed to make the deal work, according to an Emas Utilities Corp official in Ho Chi Minh City. "I think it's common knowledge that a project of this nature in Vietnam takes a long time to reach maturity," he says.

Another hurdle is purely bureaucratic. Investors pitching projects over the past year say there is still no clear decision-making process in the Vietnamese corridors of power.

"If you want to tender for construction on a particular project, it will be awarded to somebody they know and feel comfortable with, probably regardless of price," says the roads contractor. "This is holding back the foreign contractors."

Bankers are also jittery about lending to large-scale infrastructure BOT projects such as power plants with Vietnam's sovereign debt risk still relatively high. Until the country clears its roughly $700m arrears with London Club creditors, bankers say, the scope for project financing in infrastructure will remain severely restricted.

"Vietnam is still generally assessed as a high credit risk. Consequently, most banks' appetites for Vietnamese risk is finite and tapers away for loan terms of beyond 12-18 months. That's too short for the repayment periods for most BOT projects," says one Hanoi-based banker.

Although the BOT regulations say that the government will allow investors to exchange revenues in the non-convertible local currency, the dong, for hard currency, there are no cast-iron guarantees that the government will have a reliable supply of foreign exchange with which to pay investors, should projects go ahead.

That leaves concessional financing from sources such as the World Bank and Asian Development Bank. Both banks have committed to lending a total of $278.5m to upgrade sections of Highway One and have lent modestly elsewhere, notably in agriculture and power.

Bradley Babson, Vietnam resident representative for the World Bank, acknowledges the difficulties but insists the problem is one of scale, adding that the bank will continue providing loans for infrastructure development.

"There are a lot of viable projects here. Are the preconditions in place for doing deals on BOT? The answer is no. But the important thing is to start with projects that are small, to expose the Vietnamese to the commercial disciplines involved.

"We're quite bullish about what they are doing to help make it happen."

Oil and gas: by Jeremy Grant

Big strikes fail to materialise

Although gas finds are encouraging, no significant oil discoveries have yet been made

The sweeping staircase that sucks visitors into the vast new corporate headquarters of PetroVietnam in central Hanoi speaks volumes about the importance of oil and gas to Vietnam.

Crude oil pumped from three wells offshore Vietnam is the country's top foreign exchange earner, bringing in $859m so far this year against $866m in 1994, on exports of 6.4m tonnes and 6.9m tonnes respectively. The bulk of this comes from the Bach Ho (White Tiger) field, a venture between Vietnam and the former Soviet Union known as VietSovPetro.

Encouraging gas finds by British Petroleum (BP) and its partner Statoil in September 1994 have fired the enthusiasm of visionaries within PetroVietnam, the state oil agency, who see gas as the quickest way to kick-start big power generation projects.

Last month, a consortium including BP, Statoil, Tractabel of Belgium and Tomen Corp of Japan signed a memorandum of understanding with Vietnamese partners for a feasibility study for a huge power station and urea plant near Ho Chi Minh City, using gas found by BP.

The idea is to use this gas to provide power for industry in and around Ho Chi Minh City, whose economy is growing at a brisk 15 per cent annually. British gas is also working towards tapping gas flared off at the Bach Ho field and using it to fuel a power plant at Ba Ria in Ba Ria-Vung Tau province. France's Bouygues Offshore won a $122.8m contract in August to be the main contractor for the job.

Meanwhile, foreign oil companies have bid in droves for the latest oil exploration block to be offered, block 15-1, adjacent to promising oil strikes made last year by Japan's Mitsubishi and Petronas Carigali of Malaysia. Total investment by the roughly 30 oil companies active in Vietnam is $1.5bn, according to Dr Ho Si Thoang, PetroVietnam chairman

However, the mood among most of the operators is far from buoyant. Big names such as Shell, BP, Lasmo, Total and Australia's Broken Hill Pte (BHP) started prospecting in the early 1990s in an area 350km south of Vung Tau known as the Nam Con Basin, hoping for big finds.

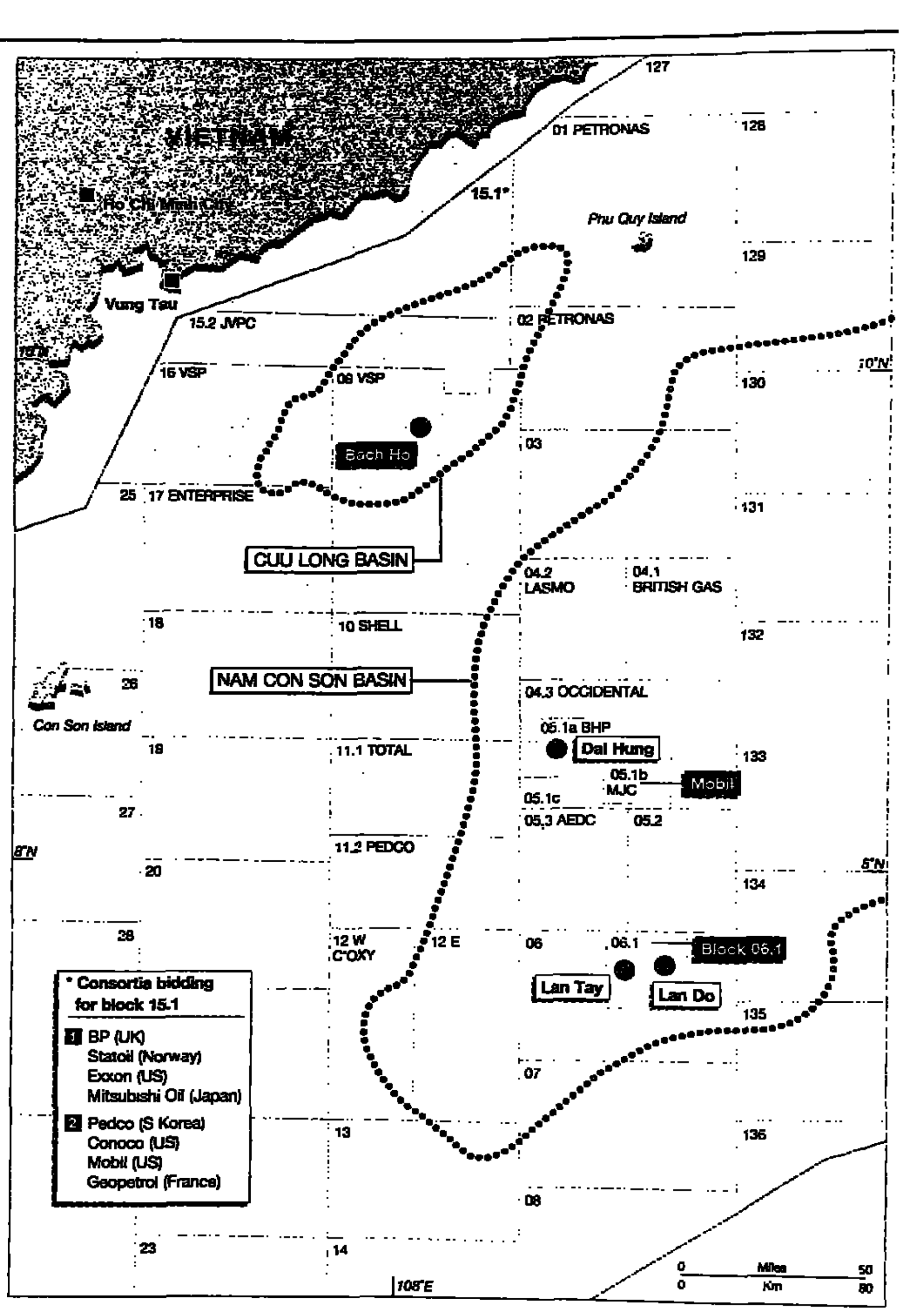
At the time, the talk about Vietnam's oil and gas potential had Vietnam down as one of the largest prospects in Asia. However, most major oil companies have been disappointed. None of them has made significant discoveries of oil in this area, concluding in many cases that the geology is too complex to justify further investment in exploration.

Anglo-Dutch giant Shell has invested $150m in exploration in Vietnam since 1988. Under a deal with PetroVietnam struck in April this year, the company has a one year extension on its product sharing contract (PSC) with PetroVietnam in block 10, without further drilling commitments, until it decides what to do next. Industry sources say the company is considering pulling out, leaving only its downstream ventures in lubricants, bitumen and liquefied petroleum gas (LPG).

Even a promising strike by BHP at Dai Hung (Big Bear) field in the same area, initially thought to contain 750m barrels of oil, is now known to be less than half that size. BHP and PetroVietnam are renegotiating the terms of their original PSC to reflect sharply lower reserves at Dai Hung, where daily output has slumped to just over 15,000 barrels per day (bpd) from the 35,000 bpd achieved when production started in October 1994.

Mobil of the US, which prospected for oil in Vietnamese waters before the end of the Vietnam war forced it out in 1975, is currently drilling a third well at block 05.1 after two unsuccessful efforts.

The geology there is known to be especially complex and industry sources say high yields at the well – the deepest ever drilled in Vietnam at 5,000 metres – are not guaranteed.



> 'It is difficult to reconcile the risks with the commercial terms of PetroVietnam'

However an additional factor discouraging the oil companies from further exploration in the Nam Con Son basin is the tough PSC terms offered by PetroVietnam which, they say, act as a disincentive to further commitments. "Every exploration company is aware of Vietnam being the toughest environment in south-east Asia in terms of PSCs," said Al Troner, managing director of Kuala Lumpur based Asia-Pacific Energy Consulting.

Experts say BHP is likely to find it difficult to wring better terms out of PetroVietnam when interest in block 15.1 is so strong, especially from US companies keen to make up for lost ground after being hampered by former US trade embargo restrictions.

"It is difficult to reconcile the risks with the commercial terms which PetroVietnam wants and which a number of players – especially American companies and Asians – are willing to offer," said one Ho Chi Minh City-based foreign oil company official.

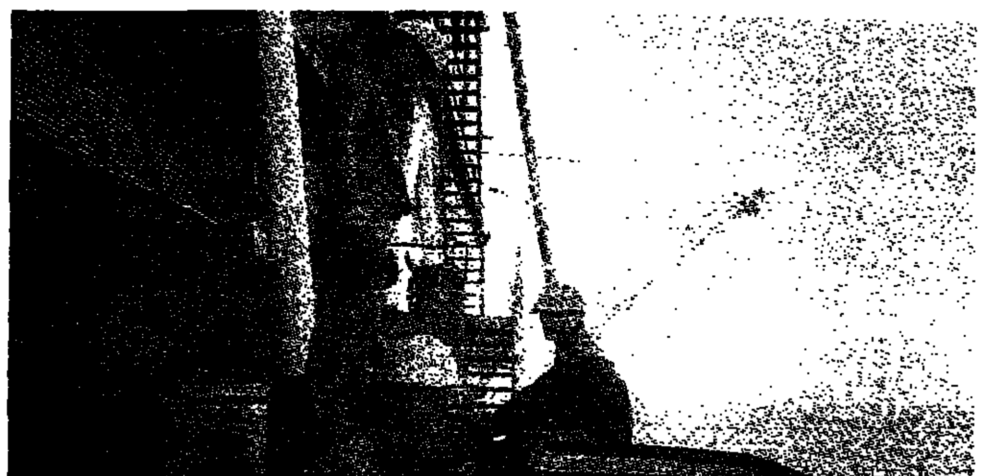
However, perhaps the biggest blow to Vietnam's nascent energy industry ambitions came in September, when Total of France abruptly withdrew from involvement in a planned $1.2bn oil refinery in Vietnam which would have been the country's first.

Total had conducted a feasibility study for Vietnam's first oil refinery in southern Vietnam, near the country's source of crude oil. However, Vietnam asked the company to look instead at Dung Quat, a remote site on the country's central coastal belt. The area had been chosen for political, rather than commercial reasons, the aim being to boost the economy of a poor central province.

However the move backfired when Total concluded that Dung Quat was too far from crude oil sources to make it economically viable and that the area lacked basic infrastructure. Industry experts were left wondering whether Vietnam's policy makers understood the commercial realities behind such a project, despite strong interest from Daewoo of South Korea, and even the Iranians, in taking Total's place. Indeed, with an anticipated refining overcapacity in south-east and north Asia as a result of ambitious plans by South Korean energy companies, analysts question the wisdom of Vietnam building any refinery at all.

Meanwhile, attention is focused on the Cuu Long (Mekong) basin, where the encouraging Japanese and Malaysian strikes were made and close to where Enterprise Oil of Britain, has decided to focus its efforts after fruitless attempts further south.

It is there that Vietnam and foreign companies see the most promise for oil which, if realised, could complement BP's gas finds further south to form an integrated energy industry. However, what seems clear is that Vietnam does not hold as much promise as once thought.


Foreign exchange earner: Vietnamese workers on an oil rig in the Bach Ho oil field — AP

■ **Haiphong:** by Jeremy Grant

Ambitions lie in trade

The city hopes a new port handling goods from China will boost the local economy

When the governor of China's southern Yunnan province visited Haiphong in 1993 shortly after a ground-breaking visit to Vietnam by President Jiang Zemin, local officials knew the Chinese were on to something.

The economy of landlocked Yunnan is growing rapidly but the province has no easy access to sea ports in the region. With the thawing of relations between China and Vietnam – traditional foes who fought a brief but bloody border war in 1979 – the port at Haiphong on the north-eastern tip of Vietnam offered a tantalising solution to their problem.

"When I asked the governor how many tonnes of cargo he could bring through the port annually, he said: '40m tonnes a year'," says Hoang Van Dinh, director of the foreign affairs office of the Haiphong People's Committee. Today, Haiphong port's annual throughput is a modest 4.5m tonnes.

Since the visit, Yunnan province has opened a trade office in Haiphong. Whether its governor's target is realistic or not, the Vietnamese are clearly hoping that Chinese trade will help boost Haiphong's economic development.

The city's ambitions mesh with government plans to develop a dynamic "growth triangle" linking Haiphong with Hanoi and the Vietnamese border town of Lao Cai, north-west of the capital. The idea is to kick-start rapid economic growth in the north of Vietnam to balance growth with the rapidly developing south.

However, Haiphong has no head start. During the Vietnam war, the bulk of its industry was obliterated by heavy aerial bombing.

Soviet hand-outs helped rebuild much of it in the years that followed but today it is in such a state of disrepair that the only alternative is a complete overhaul.

A huge cement factory in the city centre still feeds the construction industry but it belches dangerous levels of noxious fumes and the authorities have decided to close it down unless it can find investors to modernise its Romanian kilns soon.

On the foreign investment side, Haiphong has not fared much better. Despite nine years of *doi moi*, or economic renovation, most foreign funds have skirted Haiphong and other peripheral areas in favour of Ho Chi Minh City and Hanoi, only 105km west of Haiphong.

Total foreign investment commitments in Haiphong are about $750m invested in 40 projects, the largest of which is a $289m cement factory by Taiwan's Chinfon Group. Other major projects include a $120m industrial zone by Japan's Nomura, a $100m brewery being built by French brewer BGI, a $40m rolled steel plant joint venture between Posco of South Korea, and Vinausteel, a $25m Australian steel venture.

Yet Mr Dinh and other officials are convinced the future is bright and have pinned their hopes on developing a new, deep sea port on the mouth of the Red River estuary at Dinh Vu, which would replace the badly-silted, French-built port closer to the city centre. The hope is that Yunnan will use Dinh Vu as its outlet to the trade routes of the western South China Sea.

Deputy director of Haiphong port Le Duc Kinh estimates that about 5 per cent of goods handled by Haiphong port are from China but that with the new port, this could rise to as much as 30 per cent. "The Chinese have calculated that if they have to build a port on the coast of China it will cost a lot. But if they use Haiphong it will save a lot of money," he says.

A foreign consortium including IPEM, a Belgian engineering consortium, American International Group (AIG) and Thai property developer Sri U Thong, received approval in September from Vietnamese premier Vo Van Kiet to go ahead with a feasibility study for the port, which would be able to handle vessels of 30,000 dwt. Total investment would be about $560m.

Workers at Doan Xa container terminal: authorities want a new port to match trading ambitions — Sarah Murray

The main stumbling block to these plans is that there is no satisfactory land route linking Haiphong to Lao Cai and Yunnan. The only road linking Haiphong with Hanoi is a congested, two-lane road. A railway which run parallel to the road is an old, narrow-gauge link.

Britain's Balfour Beatty will shortly complete a feasibility study for rehabilitation of the railway in order to facilitate the movement of goods to and from Haiphong but is awaiting a firm commitment from Hanoi to give the project priority before it invests any more.

In the meantime, Haiphong is hoping for increased foreign investment from Europe and the US, which has so far been limited. Most foreign money in the city is from south-east and north Asian countries and local entrepreneurs are acutely conscious of the need to diversify.

"We would also like to work with the UK, US and Japan," says Dao Tat Vinh, deputy general director of Vinapipe, a joint venture with Posco of South Korea. "Their technology is very good."

The city received a blow to its foreign investment ambitions last month when a Hong Kong-based company known as Very Good International Group failed to come up with the $150m needed to start an export processing zone (EPZ) just south of Haiphong. However, local officials say South Korean and other interests have expressed an interest in replacing the Hong Kong and South African investors involved and the EPZ will go ahead.

Haiphong may not yet have the port to match its trading ambitions but the people are hardy and determined after years of suffering. "If you are from Haiphong, you have to speak louder than the waves and you are forced to eat your meal in the face of the typhoon," says Mr Dinh.

■ **Town planning:** by Kieran Cooke

Pressure mounts

Rapid growth is presenting its own problems, notably in the development of the main cities

Until recently, business people visiting Vietnam would have to plan their trips round the availability of scarce hotel accommodation. A spate of hotel completions this year in both Ho Chi Minh City and Hanoi means finding a room is no longer a problem. Hoteliers are talking of a glut and offering discounts to customers – an unheard of practise only a short time ago.

Doi moi, Vietnam's policy of economic renovation or openness, is being most keenly felt in the country's two main cities. While life in the countryside continues much as it has for centuries, urban areas, home to 20 per cent of Vietnam's 72m people, are reaping most of the benefits – and the problems – of high speed economic growth.

The population of Hanoi has exploded. In the 1930s only about 130,000 lived in the capital. Today Hanoi's population is nearly 4m, with two people per square metre, one of the highest density rates in the world.

In 1960 there were less than 1m people living in Saigon, the present day Ho Chi Minh City. When the war ended in the mid-70s the population had risen to 3m. Officially the city's population is now 4.5m, though this swells to about 6m through the daily influx of itinerants in search of work.

In communist-run Vietnam, the streets of Hanoi and Ho Chi Minh are alive with capitalism. The two cities have attracted well over half of the total foreign investment in Vietnam in recent years. The strain on ageing and delapidated infrastructure is evident and there are serious power shortages, particularly in Ho Chi Minh City.

"We have some very big problems" says Nguyen Nam Thai, the deputy director of Ho Chi Minh's urban planning institute. "But we have ambitious plans and we are determined that development will not mean our city becomes like Bangkok. Our biggest difficulty is a serious shortage of funds."

The south, with Ho Chi Minh City at its centre, is Vietnam's economic powerhouse. The city provides about 50 per cent of total budget revenues. The surrounding area, including the Mekong delta, produces nearly half the country's rice and all its grain exports. Vung Tau, the coastal town near Ho Chi Minh City, is the centre of Vietnam's oil industry. Per capita annual incomes in the southern city are the highest in the country – about $850 compared to $600 in Hanoi and a little more than $200 in most rural areas.

Pointing to the plans pinned round his office, Mr Thai describes the Ho Chi Minh City of the future. At present most industry is within the city boundaries. "We will move all industries outside to new satellite towns and the people will follow, so cutting down on congestion," says Mr Thai. A "growth triangle" will encompass Ho Chi Minh City, the town of Bien Hoa 30km to the north-east and Vung Tau. New railways and roads will link all three.

Hanoi's old buildings may have charm but most of their inhabitants want nothing more than a new house with proper facilities — Sarah Murray

Meanwhile much of the commercial and light industrial activity of Ho Chi Minh City will be relocated either east across the Saigon river in Thu Thiem, where a new city along the lines of Shanghai's Pudong will be built, or in Tan Thuan, where a 300 hectare export processing zone is under construction by a Taiwanese group.

Mr Thai says $3bn will be spent on expanding Ho Chi Minh City's airport. Capacity at the city's port will be doubled by the end of the century. The area round Tan Thuan will be developed into a satellite city under the $242m Saigon South project. A new EPZ will be constructed to the north of Ho Chi Minh City. There will be parks, lakes and recreational centres. "Perhaps some day before too long the city will be able to stage the Olympics," says Mr Thai.

To turn these plans into reality, large amounts of capital are needed. With limited local resources available, foreign funds are seen as the solution. But foreign firms say the terms being offered to invest in big infrastructure projects are not attractive.

Vietnam still lacks an adequate legal framework capable of offering guarantees for build-operate-transfer (BOT) schemes, popular in other developing countries. All land in Vietnam belongs to the state. Foreign firms need to use ownership of land as collateral for raising project finance. So far Vietnam has agreed only one BOT deal – a $30m scheme undertaken by two Malaysian companies to supply a water system to Ho Chi Minh City.

The city's authorities hope to tempt investors with the offer of leasehold land for development in return for building and operating projects. Mr Thai says a badly needed new bridge across the Saigon river is likely to be built by a German company using this financing method.

However, despite Ho Chi Minh City's problems, its infrastructure is far more developed than that of Hanoi. During the war the US spent millions on roads, water schemes and other developments in the south. A Ho Chi Minh City architect says that before 1975 the city's architects would go to Singapore to give planning advise. "Now the Singaporeans come here and try to teach us what to do. We have a lot of talent and construction skills here. It's capital that we lack."

Hanoi has limited room for expansion. Projects that have been started outside the city have run into serious water and power supply problems. A government ban on using rice land for industrial uses issued earlier this year has curtailed many developments outside the city.

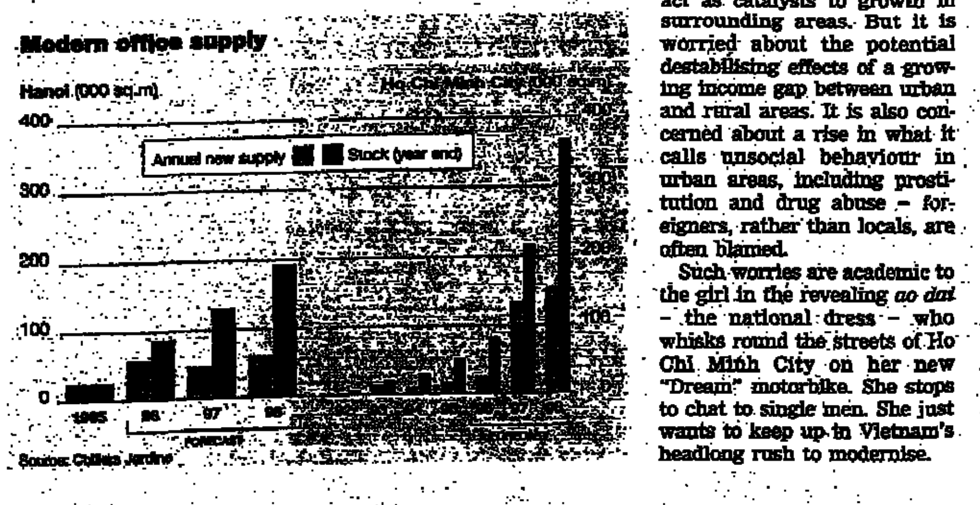
Hanoi's congested streets and decrepit buildings might seem quaint to the visitor but most residents want nothing more than a new house with proper facilities. The government has said it wants to preserve the older colonial parts of the city but preservation is often more expensive than constructing new buildings.

Building projects frequently run into bureaucratic and other problems. The South Korean Daewoo group, for example, is building a $135m commercial complex in Hanoi. Potential tenants are worried that the centre will not have adequate supplies of water, power and telecommunications while local residents complain that their power supply has been shut off to feed the new structure.

Population pressures, plus corrupt dealings by Hanoi officials, led to hundreds of houses being built on a dike that protects the city from the Red river. After a series of large cracks were found in the wall of the dike, the government ordered the buildings destroyed.

The government realises that Vietnam's two main cities can act as catalysts to growth in surrounding areas. But it is worried about the potential destabilising effects of a growing income gap between urban and rural areas. It is also concerned about a rise in what it calls unsocial behaviour in urban areas, including prostitution and drug abuse – foreigners, rather than locals, are often blamed.

Such worries are academic to the girl in the revealing *ao dai* – the national dress – who whisks round the streets of Ho Chi Minh City on her new "Dream" motorbike. She stops to chat to single men. She just wants to keep up in Vietnam's headlong rush to modernise.



■ **Tourism:** by Jeremy Grant

Five-star status a long way off

Lack of adequate facilities means it is still hard for the country to attract high-paying visitors

A year ago, flights to the site of the French military defeat at Dien Bien Phu in 1954 were packed with French tourists. Many were former combatants curious to see what had become of the old battleground since the French ignominiously withdrew from their colony. Even former French President François Mitterrand dropped by in 1993.

Today, however, Dien Bien Phu receives few visitors. Vietnam Airlines was forced to stop its regular service from Hanoi about five months ago due to slumping demand.

Dien Bien Phu illustrates the teething problems that Vietnam's tourist industry is having as it prepares for the 21st century. Although getting to Dien Bien Phu is not a problem, there is little to see once there and facilities are basic.

Yet officials talk of an impending tourist boom, hopeful that the industry will bring in much-needed foreign exchange. The Hanoi-based Institute of Tourism Development Research estimates arrivals at 1.4m this year, rising to 3.8m in the year 2000 and 8.7m by 2010. Most visitors are Japanese, Taiwanese and Americans, including US-based overseas Vietnamese.

> The roads and railways that lead to some of Vietnam's best beaches and sites can be rudimentary

However, one Vietnamese newspaper reported earlier this year that only 10 per cent of tourists make return visits to Vietnam. Industry experts say little progress can be made on upgrading sites and facilities and ensuring repeat visits until the country's infrastructure is improved. Roads and railways leading to some of Vietnam's best beaches and sites can be rudimentary. The train journey from Hanoi to Ho Chi Minh City takes a bone-jarring 36 hours to cover a distance equivalent to a trip from London to Inverness.

At "China Beach" in Danang on the central coast, where American GIs surfed during the Vietnam war, some hotel developers are already scaling down plans for luxury resorts because the area lacks adequate roads, plumbing and sewage facilities.

One investor, Maryland-based BBI Group, was drawn to the area's pristine sands and attractive hinterland, including the ancient town of Hoi An. The thinking was that this, plus Danang airport – built by the Americans in the 1960s and capable of handling Boeing 747s – would attract tourists from south-east Asia.

BBI has said it is prepared to install some infrastructure but that the success of the scheme depends on a commitment by the local authorities to build most of it surrounding the area. Such a commitment is difficult for Danang to make given that it is strapped for cash. BBI, too, is having money problems, industry sources say. Financing still has not been wrapped up for the $243m resort despite having been licensed by the authorities in September 1994.

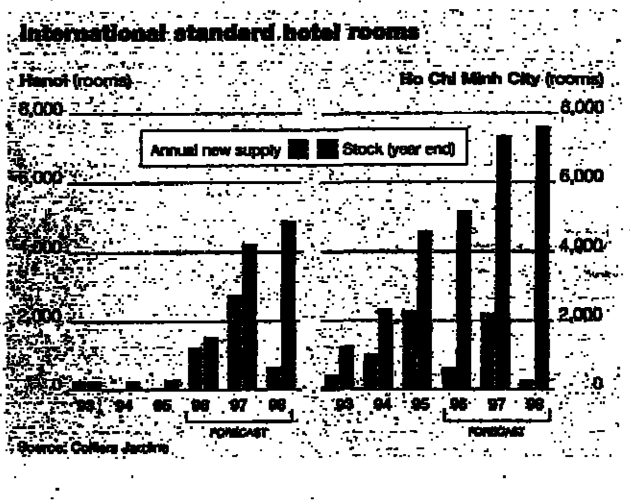
Another problem is for Vietnam to make the leap from largely low-budget, "backpacker" tourism to something more substantial. Attempts are being made by local tourist authorities to provide packaged tours to unique cultural sites such as Hue, which received international heritage status from Unesco in 1994.

"It's by preserving and developing the cultural characteristics of the nation that we create special attractions for visitors," says Do Quang Trung, general director of the Vietnam National Administration of Tourism. He sees the central region of Vietnam acting as a bridge between the north and south of the country under a tourism master plan adopted by the government in March this year.

One of the main items in the plan is to ensure Vietnam avoids the sort of sex tourism that the Vietnamese feel has ruined much of neighbouring Thailand's image.

The hope is also to balance uneven hotel development. Operators are reluctant to offer tours to Hanoi and the centre because neither offers hotels of the same standard as Ho Chi Minh City. The result has been frenzied construction in the southern city, where eight new hotels are due to come on stream by 1997. Industry experts fear a glut. "Vietnam is still only firing on one cylinder as far as hotels are concerned," says one former Saigon-based hotel manager.

One hotel group, Accor Asia-Pacific, has taken a gamble on attracting top-paying tourists away to Dalat, a pleasant, former colonial hill station five hours drive from Ho Chi Minh City. Accor, which runs the Metropole Hotel in Hanoi, has restored the Dalat Palace Hotel to its original 1922 grandeur. An 18-hole championship golf course is available nearby. "It is perhaps a bit unusual to think of Vietnam as a five-star destination," says Wilson Fieldhouse, rooms division manager. "But we've been very well received."



VIETNAM Business guide

Dialling codes

Hanoi:	014
Ho Chi Minh City:	018
Haiphong:	013
Danang:	051

Transport

To and from airports: Taxis from the airport into the centre of Hanoi can be bartered down to about $12. The Vietnam Airlines mini-bus costs $4 one way. Metered airport taxis in to the centre of Ho Chi Minh City cost about $8.

Taxis

Hanoi

Hanoi Taxi	tel: 535252
Fujicab	tel: 255452
Taxi PT	tel: 533 171
Red Taxi	tel: 353 686

Ho Chi Minh City

Airport Taxi	tel: 446666
Vinataxi	tel: 442170

Hotels

Hanoi

Metropole	tel: 266919
	fax: 266920
Heritage Hotel	tel: 351414
	fax: 351458
Saigon Hotel	tel: 268499/505
	fax: 266631
Hanoi Hotel	tel: 252240/270
	fax: 259209
Melody Hotel	tel: 263029
	fax: 243746
MoD Palace	tel: 265540
	fax: 265539
Army Hotel	tel: 252896
	fax: 259276

Ho Chi Minh City

Rex Hotel	tel: 292043
	fax: 296536
Omni Saigon Hotel	tel: 449222
	fax: 449200
Continental	tel: 294456/299255
	fax: 290936
Caravelle	tel: 293704
	fax: 296767

Hai Phong

Hoa Binh Hotel	tel: 46907
Dien Bien Hotel	tel: 42573

Danang

Bach Dang Hotel	tel: 23649
	fax: 21659
Royal Hotel	tel: 23295
	fax: 27279

Eating out

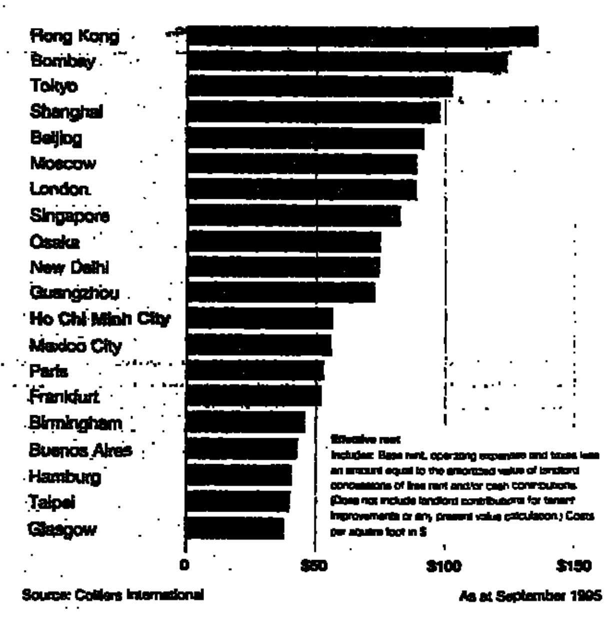
Hanoi

Com Chay Nang Tam: vegetarian food. 79-80 Trang Hung Dao (tel: 266 140).
Indochine: Vietnamese cuisine with traditional music. 16 Nam Ngu (tel: 246097).
A Little Italian: Italian pizzas and pasta. 81 Tho Nhuom (tel: 258167).
Marriott's Cook House: Vietnamese and western dishes. 65 Ngo Hue (tel: 226634).
Cha Ca La Vong: traditional fish dish. 14 Cha Ca (tel: 253929).

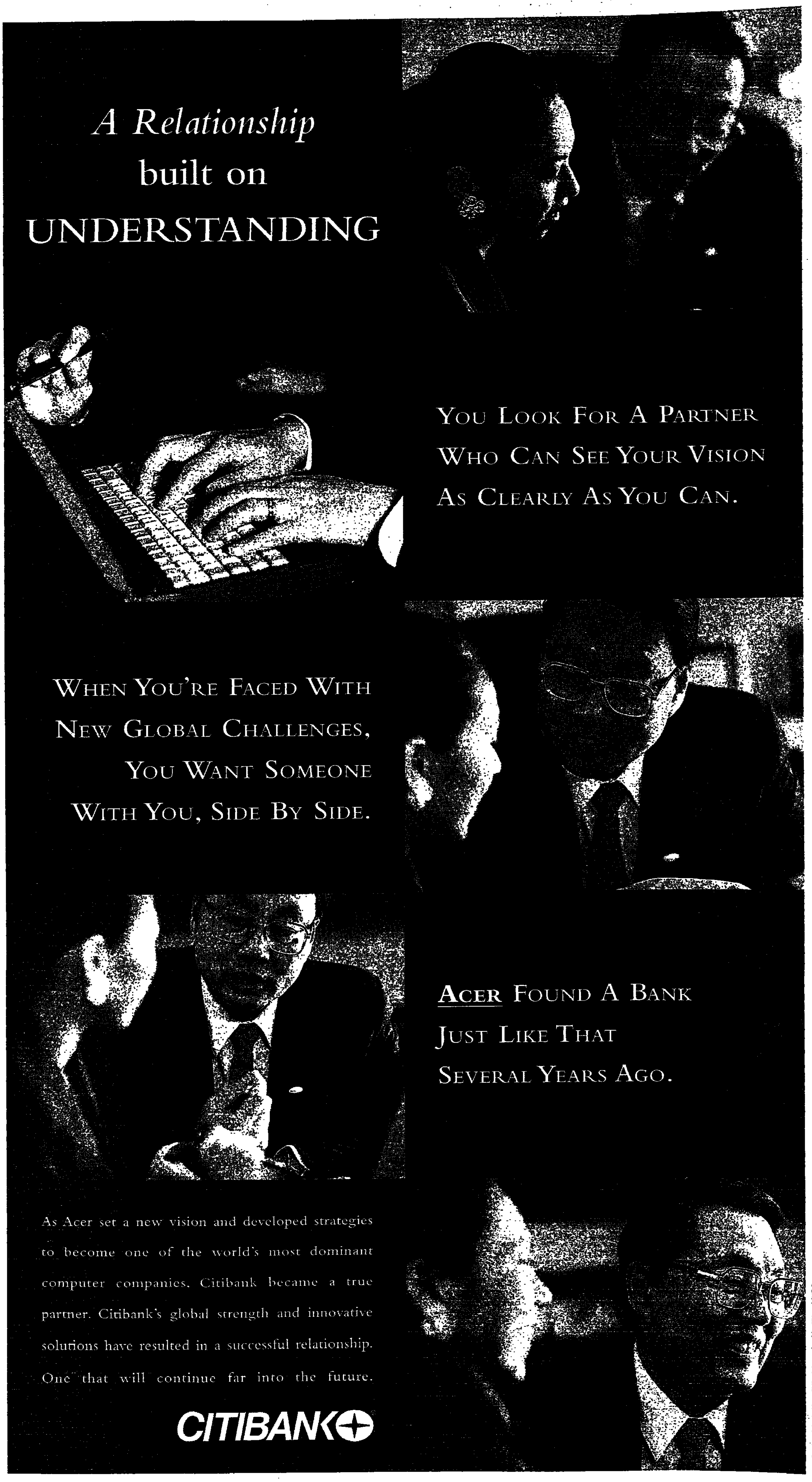
Ho Chi Minh City

Lemongrass: Vietnamese cuisine. 63 Dong Khoi, D1 (tel: 298006)
Spices: Malaysian food. Melody Hotel, 151 Nguyen Van Troi (tel: 441719).
Madame Dai's Bibliotheque: French and Vietnamese set menu. 84a Nguyen Du, D1 (tel: 231438).
La Cigale: French cuisine. 158 Nguyen Dinh Chinh (tel: 443930).
Gustave Restaurant: French cuisine. 17 Trang Tien (tel: 250625).
Vietnam House: Vietnamese cuisine. 93-95 Dong Khoi, D1 (tel: 291623).
Rex Garden Restaurant: Vietnamese, Singaporean and French cuisine. Rex Hotel, 141 Nguyen Hue (tel: 242799).
La Caprice: French cuisine. The Landmark Building, 5b Ton Duc Thang, D1 (tel: 228337).

Effective rental rates



Source: Colliers International — As at September 1995


A Relationship
built on
UNDERSTANDING
YOU LOOK FOR A PARTNER
WHO CAN SEE YOUR VISION
AS CLEARLY AS YOU CAN.
WHEN YOU'RE FACED WITH
NEW GLOBAL CHALLENGES,
YOU WANT SOMEONE
WITH YOU, SIDE BY SIDE.
ACER FOUND A BANK
JUST LIKE THAT
SEVERAL YEARS AGO.
As Acer set a new vision and developed strategies to become one of the world's most dominant computer companies, Citibank became a true partner. Citibank's global strength and innovative solutions have resulted in a successful relationship. One that will continue far into the future.
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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Citicorp Investment Mngt (Luxembourg) SA

Merrill Lynch Asset Management - Contd.

Abtrust International Ltd

Royal Life International

Global Asset Management - Contd.

Magellan Emerging Mkts Mngt (Jersey) Ltd

Republic Funds

Credit Commercial de France

Daiwa Japan Gem Fund

The Dragon Fund Sicav

Emerging Markets Strategy Fund SICAV

The First Korea Smaller Companies Fd

Foreign & Colonial Emerging Markets Ltd

Lloyds Bank Luxembourg (s)

Lombard Odier Invest (s)

Mercury Asset Management SA

Merrill Lynch Asset Management

Mitsui Sumitomo Trust SICAV

SOGETECH SA

Scudder, Stevens & Clark

OTHER OFFSHORE FUNDS

ATSP Management Ltd

AXA Asset Management

Africa Emerging Markets Fund

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assurance Co

Taipei Fund

Templeton Galbraith & Hansberger Ltd

The Thai-Euro Fund Ltd

The Thailand Fund

The Thailand Growth Fund

The Thailand Intl Fund Ltd

MANAGED FUNDS NOTES

LONDON STOCK EXCHANGE

MARKET REPORT

Interest rate jitters almost wipe out early gains

By Steve Thompson, UK Stock Market Editor

Surprisingly strong producer price indicators in the US, prompting a bout of nervousness about the chances of a reduction in interest rates next week, all but wiped out earlier good gains in UK equities yesterday.

And the US news increased the market's growing unease about potential interest rate cuts across Europe, as well as the US.

Most European markets, as well as Wall Street, have been performing very strongly on the prospects of wide-ranging rate reductions.

But it was almost back to square one yesterday for the FT-SE 100 index, which ended a much quieter trading session than of late a net 2.8 points up at 3,654.9, having been much higher earlier in the day.

The FT-SE Mid 250 index extended its recent underperformance against the FT-SE 100, losing 3.4 at 3,933.4; the second-line index was always in negative territory.

And dealers, speaking after the close of trading, noted that markets would also react to the news of the death of Sir David Lightbown, which reduces the government's overall majority in the House of Commons to a wafer thin six.

The economic news from the US did nothing to reassure a UK market already responding to growing doubts about the chances of a reduction in UK interest rates after the monthly meeting this morning between Mr Kenneth Clarke, chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England.

"I do not expect to see a cut in UK rates until all the big data is known," said the head dealer at one UK securities house. Today sees details of retail sales, unemployment numbers and unfilled vacancies for November, and average earnings and unit wage costs for October.

Tomorrow brings the all-important inflation figures for November, which are forecast to come in unchanged from the previous month. And the Bundesbank council meets tomorrow to discuss German interest rates.

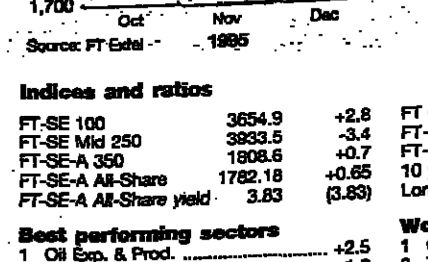
Some market observers said the optimists had already factored in a rate cut of at least 25 basis points and possibly 50 basis points. The general feeling was that a refusal by the chancellor to cut rates would upset the market, but not cause any substantial damage. "At worst, we could move back towards 3,600 on the FT-SE 100, but there is evidence of big support around that number," said a strategist.

Turnover yesterday was a real disappointment after the recent series of heavy volume days. At 6pm, 707.4m shares had been traded via the Seaq system, with non-FT-SE 100 stocks accounting for 55 per cent of the day's activity.

Takeover news emerged in mid-session with Goal Petroleum announcing it was involved in talks with an unnamed party – this would make the third bid in the oil exploration sector this year. The rest of the oil exploration sector was given a big boost by the news.

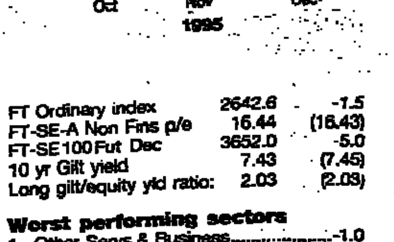
Other good performers in the leaders included Rexam, the last of the paper manufacturers in the FT-SE 100, and Asda, the supermarkets group which reports interim figures tomorrow.

FT-SE-A All-Share index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3654.9	+2.8
FT-SE Mid 250	3933.5	-3.4
FT-SE-A 350	1808.6	+0.7
FT-SE-A All-Share	1782.18	+0.65
FT-SE-A All-Share yield	3.83	(3.83)

FT Ordinary index	2642.6	-1.5
FT-SE-A Non Fins p/e	16.44	(16.43)
FT-SE100 Fut Dec	3652.0	-5.0
10 yr Gilt yield	7.43	(7.45)
Long gilt/equity yld ratio:	2.03	(2.03)

Best performing sectors

1. Oil Exp. & Prod. .... +2.5
2. Oil, Integrated .... +1.0
3. Mineral Extraction .... +1.0
4. Spirits, Wines & Cids. .... +0.8
5. Breweries .... +0.5

Worst performing sectors

1. Other Servs.& Business .... -1.0
2. Telecommunications .... -1.0
3. Engineering, Vehicles .... -0.8
4. *Utilities* .... -0.6
5. Retailers, General .... -0.5

Bid talk buoys Rexam

It may be beleaguered but the paper sector of the London market is not bereft of intense speculation.

Yesterday, **Rexam**, which will shortly be the last surviving member of the sector in the Footsie, rose 9 to 337p on a combination of takeover rumour, weighting adjustment and director share buying.

The bid rumours focused on Alusuisse, the Swiss aluminium, chemicals and packaging group, which is currently valued at around £3.4bn. The company is highly geared but has a big interest in UK packaging.

Ms Sonia Falaschi of UBS commented: "It would make Alusuisse a very powerful company in the UK packaging industry. It is not as wild a story as some I have heard."

Analysts said that while Rexam may not have reached the level where a bidder could automatically extract value, the shares have fallen from 500p since August and management was in disarray.

The share price strength also reflected the desire by index tracking funds to shift holdings in anticipation of De La Rue and Arjo Wiggins Appleton leaving the Footsie.

Also, there was some encouragement from news that two board directors had bought stock for their Personal Equity Plans.

Leading conglomerate BTR, which came off sharply at the end of November following a cautious trading statement, continued to edge lower in above average turnover.

The latest niggle for the shares centred on worries about a stock overhang, in the wake of recent heavy arbitrage trading between BTR and Australian offshoot BTR Nylex. The group's offer for the outstanding minority in BTR Nylex closes today and some London brokers cautioned that the BTR share price could be subject to technical swings.

Closer to 340p at the end of November, the shares ended 3 lower yesterday at 317p in 16m traded. There was also heavy derivatives activity in the group's stock options.

Ahead of Friday's annual results, struggling construction and engineering conglomerate **Trafalgar House** finished all square at 27p after early strength.

City opinion on Trafalgar is polarised. "The risks are huge and there is no way of knowing just how much downside risk is already in the price," said one sector watcher. Another pointed to Trafalgar's penny stock status and remarked: "There could be punt money limbering up on the sidelines. No-one wants to miss out, should there be a rebound."

Powell Duffryn retreated 15 to 435p following a recent negative note from Merrill Lynch. However, the broker sees support from the stock's 7 per cent yield.

Telecoms shares had a dull day, overshadowed by some bearish growlings from a top London broker and sporadic selling from the US. Both BT, down 4½ to 343½p, and Vodafone featured at the bottom end of the Footsie rankings.

UK mobile phones leader Vodafone came in as Footsie backmarker, following news that the company was indulging in some fairly aggressive price promotion. James Capel trimmed its profits estimate, and the shares declined 6¼ to 222¼p in above average turnover of 13m.

Among engineering stocks, **British Steel** continued to lose favour, shedding 3¼ to 158p for a two-day decline of 6 per cent.

Announcement of a potential bid in the oil sector produced a gusher of interest in exploration and production stocks.

Goal Petroleum may only have a market valuation around £100m, but a statement that it was in talks which may or may not lead to an offer for the whole of its share capital alerted investors to the potential for takeover activity. It also prompted a number of analysts to look at the valuations of the sector and realise that the share prices were not up with events.

Consequently, Enterprise leapt to the top end of the Footsie with a rise of 10 to 365p and Lasmo firmed 3 to 170p.

Meanwhile, Goal climbed 20 to 88p before the announcement was made and closed at 89p. Analysts estimated that a bid could value the company at as high as 100p a share.

Candidates to go for Goal were seen, in order of logical possibility, as Arco, Hardy, and Monument Oil & Gas.

Shares in **Asda Group**, the UK's fourth largest food retailer, hardened 2½ to 108p in trade of 8.7m ahead of tomorrow's interim figures. Analysts expect profits to show a 24 per cent rise to £135m, in spite of the continuing food price war that has been raging in the sector over the last few months. The stock has been boosted by bid talk in recent sessions.

Profit-taking marked the other leading food retailing stocks. Argyll Group shed 3 to 313p, with some 3.2m having been traded by the close of the session, while J. Sainsbury relinquished 2 to 375p.

In stores, Argos, a new Footsie constituent, eased 5 to 591p, with SBC Warburg said to have advised clients to "take profits".

There was also profit-taking in Great Universal Stores, following the recent strong performance after the announcement of boardroom changes. The shares relinquished 10 to 668p in trade of 4.4m.

Comments by one broker that suggested Burton Group looked "expensive" left the shares 2 lighter at 128p.

There was no disguising the fact that full-year figures from Vaux, the brewing, hotels and nursing homes group, were disappointing.

The shares tumbled ahead of the lunchtime analysts meeting and were down 6 per cent at the day's worst, following the release of the figures. Profits rose 8.7 per cent to £31.8m, but this was at the bottom end of market expectations.

The stock ended as the session's worst performer in the FT-SE Mid 250 index, showing a fall of 12 to 252p on the day.

In the rest of the drinks sector, Guinness continued to move ahead, with NatWest Securities said to have shown a keen interest in the stock. The shares climbed 9 to 470p in turnover of 6.8m. The same broker is believed to have turned more positive on Bass, up 4 at 724p.

Among building related stocks, both Taylor Woodrow and Caradon jumped to the top end of the FT-SE Mid 250 rankings. TW added 5 at 123p following a positive change of stance by a top broker, which has upgraded profits estimates for this year and next by 5 per cent and moved from "hold" to "buy". Caradon rose 7 to 186p.

Stakis eased 3 to 79p after it posted figures at the bottom end of market expectations.

Compass Group improved 5 to 450p after announcing that it had sold its healthcare division for £178.8m. Sentiment was enhanced by a recommendation from Merrill Lynch, which upgraded its stance from "hold" to "buy". Mr Bruce Jones at the broker believes: "It is worth paying a premium price for reliable growth over a several years period."

Cautious comments on Monday's figures from Airtours saw the shares ease 8 to 350p.

Media conglomerate Pearson moved forward 7 to 667p ahead of a trading update.

MARKET REPORTERS:
Peter John, Joel Kibazo, Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Dec 12	Dec 11	Dec 8	Dec 7	Dec 6	Yr ago	*High	*Low
Ordinary Share	2642.6	2644.1	2630.1	2635.0	2648.4	2267.0	2678.1	2238.3
Ord. div. yield	4.06	4.06	4.08	4.07	4.05	4.60	4.78	4.02
P/E ratio net	15.84	15.86	15.78	15.79	15.89	17.11	21.33	15.35
P/E ratio nil	15.67	15.68	15.59	15.62	15.72	16.69	22.21	15.17

*For 1995. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2651.2	2653.0	2652.0	2650.4	2647.8	2647.0	2643.5	2642.7	2641.2	2653.5	2639.8

	Dec 12	Dec 11	Dec 8	Dec 7	Dec 6	Yr ago
SEAQ bargains	27,551	31,018	28,040	26,780	27,906	18,267
Equity turnover (£m)†	-	2210.7	1554.6	1744.0	1813.1	1599.3
Equity bargains†	-	36,729	31,065	32,689	34,536	26,898
Shares traded (m)†	-	868.0	575.2	690.0	657.3	662.1

†Excluding intra-market business and overseas turnover.

London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	711	Total Highs	132	*Total contracts*	27,416
Total Falls	573	Total Lows	53	Calls	16,047
Same	1,577			Puts	11,369

Dec. 12 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3671.0	3652.0	-5.0	3674.0	3645.0	16907	41576
Mar	3696.0	3676.0	-4.0	3697.0	3670.0	11175	39593
Jun		3679.0	-5.0			0	1116

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		3935.0	-			0	475
Mar		3985.0	-			0	3183

FT-SE 100 INDEX OPTION (LIFFE) (*3654) £10 per full index point

	3500 C	3500 P	3550 C	3550 P	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P
Dec	154½	1	104½	1½	55	3	16½	15½	1½	58	1	106	1	158	1	208
Jan	170½	13½	128½	21½	92	34½	68½	53½	35½	80½	18½	117	9	163	3	213
Feb	192	22½	153	34	117	48½	87	69	62	95½	41½	128	27	167	16½	213
Mar	218½	38	172½	50	139½	68	108	86½	82½	113	58½	141½	41½	177	27	218½
Jun†	268½	80			183½	111½			130½	158			86	215½		

Calls 4,857 Puts 3,454

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3475 C	3475 P	3525 C	3525 P	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P
Dec	177	1	127	1	77½	1	32	5	5½	28½	1	73	1	123	1	173
Jan	192½	10	149½	16½	110	26½	75½	41½	47½	63½	27	92½	14	129	6½	171
Feb	210	15½	169½	24	132½	36½	100	53½	73	76	51	103½	34	136	22	173
Mar	228	30½	189	41	152½	53½	119	69	91½	90½	68½	116½	50	147	35	181
Jun†			229½	81			167	115			114½	159			74½	215

Calls 2,513 Puts 1,882 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
100	F.P.	24.5	99	98	Abtrust High Inc C	98		-	-	-	-
-	F.P.	2.13	10	9	†Arion Props	9		v-	-	-	-
306	F.P.	48.8	303	285	BZW Eqs Bermuda	301		v-	-	-	-
-	F.P.	61.8	104	101	Benfield & Rea	103		-	-	-	-
290	F.P.	214.5	347	298	CMG	336	-1	Rv4.8	1.2	1.8	17.4
-	F.P.	26.0	29	26	Cash Converters	26		Mv2.6	5.1	12.5	19.4
150	F.P.	71.4	160	149½	Cortworth	149½	-1½	Rv5.8	2.1	4.8	12.3
-	F.P.	54.1	110	108	Cox Insurance	110		-	-	-	-
-	F.P.	13.2	448	448	East Surrey NV	448		-	-	-	-
100	F.P.	51.0	102	98	Finsbury Tech	102		-	-	-	-
-	F.P.	14.6	146	125	Gardner (L)	130		-	-	-	-
200	F.P.	21.9	203	203	Gearhouse	203		Lv4.4	3.5	2.7	13.3
-	F.P.	3.46	116	83	Jasmin	85	-5	-	-	-	-
-	F.P.	2.00	80	70	London Town	80		-	-	-	-
-	F.P.	33.1	97½	93½	Martin Currie Jp	97½	+1	-	-	-	-
-	F.P.	2.24	34	29	Do Warrants	33		-	-	-	-
204	F.P.	3,568.0	214½	207½	National Grid	211	+1½	Wv11.23	2.3	6.7	9.5
200	F.P.	78.7	260	200	Peptide Th'peutics	232		-	-	-	-
-	F.P.	87.4	360	345	†Pet City	360	+8	-	-	-	-
-	F.P.	1.07	105	100	†Revelation P'dilly	100		-	-	-	-
-	F.P.	168.8	45	35	†Trocadero	40	-1	-	-	-	-
-	F.P.	163.6	280	263	Vero Group	270	-1	RWv5.1	1.8	2.4	29.7
-	F.P.	44.3	63	55	Wilmington	62	-1	v-	-	-	29.1

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Dec 11	% chg on day	Dec 8	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (34)	1978.58	+0.4	1969.82	1844.38	1.81	-	2063.88	1637.91
Regional Indices								
Africa (16)	2596.25	+2.3	2537.93	2939.30	3.91	23.23	3191.21	2272.74
Australasia (6)	2405.68	+0.7	2388.47	2231.41	2.04	37.70	2607.57	1768.20
North America (12)	1745.09	-0.5	1753.42	1463.32	0.77	50.19	1831.00	1348.18

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FT - SE Actuaries Share Indices — The UK Series

	Dec 12	Day's chge%	Dec 11	Dec 8	Dec 7	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3654.9	+0.1	3652.1	3630.0	3639.5	2946.4	3.95	2.09	15.12	143.36	1456.98
FT-SE Mid 250	3933.5	-0.1	3936.9	3933.2	3953.9	3373.2	3.59	1.83	19.08	181.70	1555.93
FT-SE Mid 250 ex Inv Trusts	3941.1	-0.1	3944.9	3943.2	3965.8	3370.7	3.74	1.89	17.73	193.94	1561.47
FT-SE-A 350	1808.6	......	1807.9	1798.9	1804.7	1478.3	3.87	2.04	15.83	73.60	1477.06
FT-SE-A 350 Higher Yield	1803.0	......	1802.8	1794.0	1800.7	1486.6	4.90	1.84	13.83	94.64	1225.07
FT-SE-A 350 Lower Yield	1819.1	+0.1	1817.8	1808.6	1813.4	1432.3	2.80	2.40	18.61	51.08	1236.96
FT-SE SmallCap	1937.60	......	1937.97	1938.84	1940.28	1728.91	3.33	1.70	22.09	60.57	1565.22
FT-SE SmallCap ex Inv Trusts	1912.53	-0.1	1913.57	1915.42	1916.87	1698.94	3.57	1.77	19.75	63.65	1553.37
FT-SE-A ALL-SHARE	1782.18	......	1781.53	1773.38	1778.74	1466.10	3.83	2.02	16.16	71.28	1478.88

FT-SE Actuaries All-Share

	Dec 12	Day's chge%	Dec 11	Dec 8	Dec 7	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	3209.16	+1.0	3177.04	3156.27	3179.38	2592.21	3.86	2.02	16.97	116.72	1350.44
12 Extractive Industries(7)	4227.82	+0.2	4217.36	4184.64	4236.21	3647.51	3.50	2.51	14.24	144.17	1212.33
15 Oil, Integrated(3)	3256.24	+1.0	3222.74	3201.51	3220.11	2568.75	3.78	1.96	16.91	123.19	1404.68
16 Oil Exploration & Prod(13)	2001.85	+2.5	1952.68	1946.77	1971.99	1792.26	2.51	1.49	33.32	49.88	1188.23
20 GEN INDUSTRIALS(277)	1915.55	.....	1915.21	1919.12	1922.58	1773.48	4.34	1.89	15.26	80.27	1027.47
21 Building & Construction(38)	1010.37	+0.4	1006.80	1006.67	1010.52	945.23	4.01	2.00	15.55	38.89	831.27
22 Building Matls & Merchs(31)	1743.28	.....	1743.56	1751.90	1756.80	1698.84	4.23	2.04	14.46	73.55	865.17
23 Chemicals(23)	2309.70	+0.2	2305.76	2277.29	2330.49	2198.18	4.25	1.87	15.75	94.71	1075.09
24 Diversified Industrials(20)	1731.42	+0.2	1727.88	1740.71	1734.29	1690.80	5.74	1.56	14.00	97.90	946.61
25 Electronic & Elect Equip(36)	2098.61	.....	2099.20	2099.30	2103.24	1765.56	3.58	2.00	17.47	62.44	1069.89
26 Engineering(68)	2147.30	.....	2147.63	2154.14	2157.79	1752.94	3.52	2.27	15.64	73.78	1285.03
27 *Engineering, Vehicles(13)*	2484.78	-0.8	2505.23	2499.48	2454.42	2154.80	3.78	1.16	28.41	83.58	1265.93
28 Paper, Pckg & Printing(27)	2445.10	-0.1	2447.74	2464.35	2447.04	2686.11	4.10	2.50	12.17	96.80	1001.64
29 Textiles & Apparel(21)	1425.33	-0.3	1429.04	1438.78	1450.77	1497.78	5.03	1.84	13.54	71.38	854.56
30 CONSUMER GOODS(89)	3593.05	+0.2	3584.25	3558.38	3574.11	2676.69	3.79	1.80	18.31	130.35	1302.01
31 Breweries(17)	2807.56	+0.5	2792.61	2767.29	2774.44	2134.22	3.70	1.92	17.58	69.57	1316.64
32 Spirits, Wines & Ciders(9)	2839.74	+0.8	2817.43	2778.78	2778.48	2600.07	4.28	1.77	16.56	125.07	1005.00
33 Food Producers(24)	2548.45	-0.2	2554.64	2551.90	2534.26	2215.63	4.05	1.81	17.06	99.04	1129.26
34 Household Goods(11)	2566.53	+0.3	2558.78	2561.41	2592.34	2282.16	3.73	2.13	15.74	90.95	963.64
36 Health Care(17)	1940.68	-0.2	1943.83	1939.90	1944.43	1535.37	2.73	1.79	25.69	49.84	1165.05
37 Pharmaceuticals(10)	5061.92	+0.2	5053.02	5026.17	5070.80	3103.04	3.26	1.70	22.54	162.31	1690.63
38 Tobacco(1)	4743.69	+0.4	4726.75	4646.28	4714.05	3569.56	5.06	1.94	12.73	229.23	1147.64
40 SERVICES(227)	2207.49	.....	2208.38	2192.50	2190.93	1821.56	3.04	2.10	19.57	67.22	1130.91
41 Distributors(30)	2525.29	+0.3	2517.29	2478.27	2487.56	2486.87	3.98	1.77	17.75	100.38	918.66
42 Leisure & Hotels(30)	2619.32	-0.2	2624.37	2613.98	2622.89	2040.09	3.10	1.89	21.39	73.67	1341.69
43 Media(43)	3507.59	+0.2	3500.20	3490.94	3498.98	2751.45	2.04	2.38	25.76	79.91	1254.74
44 Retailers, Food(16)	1945.76	+0.2	1941.94	1901.98	1909.99	1665.24	3.73	2.39	14.02	72.35	1218.39
45 Retailers, General(44)	1903.45	-0.5	1912.95	1894.84	1875.94	1499.42	3.13	2.27	17.63	59.48	1072.94
48 Support Services(37)	1862.42	+0.5	1853.01	1849.97	1842.77	1441.14	2.48	2.52	19.96	42.58	1170.70
49 Transport(20)	2149.71	.....	2149.97	2152.12	2162.82	2133.97	4.06	1.30	23.58	86.39	882.80
51 Other Services & Business(7)	1085.57	-1.0	1096.85	1105.57	1113.82	1216.47	4.34	1.58	18.18	50.09	881.81
60 UTILITIES(36)	2409.25	-0.6	2424.34	2420.88	2414.99	2284.79	5.10	2.03	12.05	175.46	1017.43
62 Electricity(14)	2779.70	-0.3	2788.69	2783.20	2786.28	2400.28	4.92	2.61	9.72	394.34	1371.52
64 *Gas Distribution(2)*	1512.57	-0.4	1518.97	1506.17	1522.29	1977.11	7.92	1.04	15.17	119.82	758.88
66 Telecommunications(7)	1940.83	-1.0	1960.53	1960.45	1942.64	1881.85	4.35	1.74	16.49	56.90	866.38
68 Water(13)	2111.78	-0.3	2117.43	2118.54	2120.08	1675.53	5.61	2.64	8.45	106.36	1133.96
69 NON-FINANCIALS(652)	1876.31	+0.1	1874.82	1866.97	1870.36	1582.40	3.89	1.95	16.44	77.84	1400.48
70 FINANCIALS(113)	2889.84	-0.2	2894.00	2875.07	2899.94	2083.21	3.87	2.43	13.29	107.91	1208.37
71 *Banks, Retail(9)*	4115.52	-0.2	4124.50	4080.32	4109.66	2758.22	3.56	2.80	12.56	140.81	1298.04
72 Banks, Merchant(6)	3620.17	+0.4	3606.99	3608.96	3612.60	3060.19	2.57	2.41	20.16	104.97	1134.89
73 Insurance(25)	1423.77	+0.1	1422.92	1416.84	1443.01	1139.78	5.17	2.68	9.02	73.13	1043.14
74 Life Assurance(6)	3413.04	-0.2	3421.14	3419.58	3479.66	2283.15	4.09	1.53	19.97	136.72	1390.48
77 Other Financial(22)	2421.49	.....	2420.65	2418.34	2420.53	1817.27	3.88	1.85	18.27	71.46	1353.97
79 Property(45)	1388.71	-0.2	1391.29	1398.74	1403.18	1315.79	4.52	1.34	20.64	62.43	841.91
80 INVESTMENT TRUSTS(133)	3007.78	.....	3006.70	2998.74	3000.74	2646.97	2.24	1.04	53.39	62.32	1039.31
89 FT-SE-A ALL-SHARE(898)	1782.18	.....	1781.53	1773.38	1778.74	1466.10	3.83	2.02	16.16	71.28	1478.88
FT-SE-A Fledgling	1105.61	.....	1106.13	1105.28	1104.62	-	2.88	1.26	34.57	32.14	1140.98
FT-SE-A Fledgling ex Inv Trusts	1108.27	+0.1	1107.10	1108.23	1107.54	-	3.02	1.31	31.51	31.18	1142.87

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3664.1	3667.8	3667.4	3666.4	3662.0	3662.0	3658.6	3657.8	3654.3	3668.3	3653.9
FT-SE Mid 250	3937.5	3937.7	3934.2	3934.3	3936.3	3936.4	3935.4	3935.2	3933.2	3938.2	3932.8
FT-SE-A 350	1812.6	1814.1	1813.5	1813.2	1811.7	1811.7	1810.2	1809.9	1808.4	1814.2	1808.2

Time of FT-SE 100 Day's high: 8.55am Day's low: 4.15pm. FT-SE 100 1995 High: 3680.4 (1/12) Low: 2954.2 (23/1).

FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1002.1	1003.2	1004.8	1005.0	1004.6	1005.0	1005.0	1004.3	1004.3	1004.9	1000.8	+4.1
Pharmaceuticls	5016.1	5022.6	5029.2	5027.7	5026.1	5021.6	5021.7	5015.7	5008.3	5000.5	4991.9	+8.6
Water	2114.5	2114.5	2107.4	2109.5	2108.7	2108.7	2109.9	2107.6	2107.1	2107.5	2113.3	-5.8
Banks, Retail	4189.6	4200.4	4198.0	4201.1	4191.1	4192.4	4185.6	4182.1	4188.8	4168.0	4177.1	-9.1

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL.
The FT "500" has been renamed FT-SE-A Non-Financials Index. The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules.

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TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	238	430	-1
ASDA Group†	9,900	105	+½
Abbey National†	3,800	628	-10
Albert Fisher	350	48	+½
Allied Domecq†	3,600	531	
Anglian Water	549	574	-10
Argos	175	591	-5
Argyll Group†	3,300	313	-3
Arjo Wiggins†	643	183	+1
Assoc. Brit. Foods†	332	722	+2
Assoc. Brit. Ports	508	289	-2
BAA†	3,000	481½	-½
BAT Inds.†	5,100	560	+2
BET	644	135	+2½
BICC	1,500	265	-1
BOC†	515	910	+2
BP†	9,400	533½	+8
BPB Inds.	518	285	-5
BSkyB†	973	420	+1
BT†	11,000	343½	-4½
BTR†	18,000	319	-1
Bank of Scotland†	3,800	275	+1
Barclays†	2,100	772	-5
Bass†	3,200	724	+4
Blue Circle†	2,000	325	-2
Booker	150	340	+3
Boots†	709	586	-3
Britannic	29	721	
Brit. Aerospace†	2,600	786	+11
British Airways†	1,500	474	+3
British Gas†	14,000	227½	-1
British Land	1,400	368	-6
British Steel†	13,000	158	-3¼
Bunzl	2,200	191	-½
Burmah Castrol†	684	943	
Burton	1,600	128	-2
Cable & Wire†	5,200	446	+5
Cadbury Schweppes†	1,600	549½	-2½
Caradon	645	186	+7
Carlton Comms.†	803	996	+12
Coats Viyella	2,000	171	
Comm. Union†	1,500	634	+2
Compass	2,600	450	+5
Cookson†	1,800	306	-1
Courtaulds†	932	385	-3
Dalgety	486	387	+10
De La Rue†	759	660	-9
Dixons	4,700	407	-2
East Midland Elec.	731	739	+19
Electrocomps	1,100	368	+3
Eng China Clays	1,100	292	+2
Enterprise Oil†	3,200	365	+10
Eurotunnel Units	102	91	+1
FKI	980	165	
Foreign & Col. I.T.	393	161½	
Forte†	4,800	337½	
Gen. Accident†	816	650	-1
General Elect.†	3,600	316	+1
Glaxo Wellcome†	7,500	885	+3
Glynwed	464	310	+2
Granada†	1,600	637	+1
Grand Met.†	6,100	451	+1
GUS†	4,400	668	-10
GRE	1,500	261	-5
GKN†	808	797	-6
Guinness†	6,800	470	+9
HSBC (75p shs)†	2,500	1008	+8½
Hammerson	162	341	
Hanson†	13,000	189½	+2½
Harrisons Crosfield	381	143	
Hays	2,800	358	+6
Hillsdown	459	152	
IMI	363	311	+4
ICI†	488	748	-2
Inchcape	2,100	223	
Johnson Matthey	114	541	
Kingfisher†	2,700	510	+2
Kwik Save	56	558	+1
Ladbroke†	805	155	
Land Securities†	1,700	611	+4
Laporte	619	636	-3
Legal & General†	1,400	665	-3
Lloyds Abbey	3,000	458	+8
Lloyds Bank†	4,500	879	-5
LASMO†	2,600	170	+3
London Elect.†	1,100	699	+1
Lonrho	561	175	-½
Lucas	357	177	-1
MEPC	345	378	
MFI	6,900	154	
Marks & Spencer†	3,400	443	-1
Mercury Asset Man	131	889	
Midlands Elect.†	62	788	+3
Morrison (Wm.)	610	134	-2
NFC	2,300	131	-3
NatWest Bank†	3,300	664	-1
National Grid†	11,000	211	+1½
National Power†	1,700	448	-7
Next	718	443	-2
North West Water†	487	588	-1
Northern Elect.	1,100	583	
Northern Foods	894	171	
Pearson†	1,900	667	+7
P & O†	1,000	467	+3
Pilkington	678	197	+2
PowerGen†	1,600	519	-5
Prudential†	1,200	429	-1
REXAM†	1,600	337	+9
RMC†	1,500	986	-2
RTZ†	1,100	945	+3
Racal	366	268	-9
Rank Org.†	1,600	416	
Reckitt & Colman†	388	660	+2
Redland†	735	370	-3
Reed Intl.†	1,000	993	+5
Rentokil†	1,700	253	+2
Reuters†	6,200	600	
Rolls Royce†	4,900	176	-2
Ryl Bk Scotland†	1,100	575	-6
Royal Insurance†	1,400	378	-3
Sainsbury†	1,900	375	-2
Schroders†	181	1343	+8
Scottish & New.†	3,400	609	+6
Scot. Hydro-Elect.	427	359	+½
Scottish Power†	1,600	385	-2
Sears†	2,500	100	+1
Sedgwick	1,100	118	
Seeboard	287	592	+2
Severn Trent†	1,300	671	+2
Shell Transport†	5,700	839	+5
Siebe†	660	784	+10
Slough Ests	1,100	206	-3
Smith (W.H.)	333	418	-4
Smith & Nephew†	2,700	192	+½
SmKl Beecham†	3,200	702½	+6½
SmKl Beecham Uts.†	[illegible]	582	+2
Smiths Inds.	1,000	619	-1
Southern Elect.†	238	832	-1
South Wales Elect.	223	337	
South West Water	64	492	+3
Southern Water	45	691	-2
Standard Chartd.†	2,900	562½	-2½
Storehouse	675	343	-2
Sun Alliance†	2,700	388	+8
T&N	2,300	161	-7
TI Group†	1,200	442	+7
TSB†	2,800	406	-4
Tarmac	1,000	94½	-2
Tate & Lyle†	1,700	453	-7
Taylor Woodrow	311	123	+5
TeleWest	2,200	159	-4
Tesco†	3,900	301	+2
Thames Water†	883	568	+3
Thorn EMI†	783	1602	-11
Tomkins†	2,300	282	
Trafalgar House	1,800	27	
Unigate	835	410	
Unilever†	537	1327	-10
United Biscuits	498	254	
Utd. News & Media	172	888	
Vodafone†	13,000	222½	-6½
WPP	4,800	152	+1
Welsh Water	374	720	-7
Wessex Water	299	332	-2
Whitbread†	1,600	668	+5
Williams Hldgs.†	834	322	
Willis Corroon	491	140	+3
Wimpey	899	130	
Wolseley†	403	434	-1
Yorkshire Elect.	338	893	-5
Yorkshire Water	881	604	-9
Zeneca†	1,600	1278	-13

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded.

هكذا من الأصل

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 12 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Dec 12 / Frs.)

[illegible]

CZECH REP (Dec 12 / Korona)

[illegible]

DENMARK (Dec 12 / Kr)

[illegible]

FINLAND (Dec 12 / Mks)

[illegible]

FRANCE (Dec 12 / Frs.)

[illegible]

GERMANY (Dec 12 / Dm.)

[illegible]

GREECE (Dec 12 / Drachma)

[illegible]

ITALY (Dec 12 / Lira)

[illegible]

NETHERLANDS (Dec 12 / Fls.)

[illegible]

NORWAY (Dec 12 / Kroner)

[illegible]

POLAND (Dec 12 / Zloty)

[illegible]

PORTUGAL (Dec 12 / Escudo)

[illegible]

SPAIN (Dec 12 / Pta.)

[illegible]

SWEDEN (Dec 12 / Kronor)

[illegible]

SWITZERLAND (Dec 12 / Frs.)

[illegible]

TURKEY (Dec 12 / TK Lira)

[illegible]

PACIFIC

JAPAN (Dec 12 / Yen)

[illegible]

AUSTRALIA (Dec 12 / Aust$)

[illegible]

HONG KONG (Dec 12 / H.K.$)

[illegible]

INDONESIA (Dec 12 / Rupiah)

[illegible]

MALAYSIA (Dec 12 / MYR)

[illegible]

NEW ZEALAND (Dec 12 / NZ $)

[illegible]

SINGAPORE (Dec 12 / S$)

[illegible]

SOUTH KOREA (Dec 12 / Won)

[illegible]

TAIWAN (Dec 12 / TW $)

[illegible]

THAILAND (Dec 12 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Dec 12 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Dec 12 / Can $) 4 pm close

[illegible]

MONTREAL (Dec 12 / Can $) 4 pm close

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Dec 12	Dec 11	Dec 8	1995 High		1995 Low	
Argentina							
General(29/12/77)	(u)	14705.72	(c)	16831.38	2/1	1831.80	9/3
Australia							
All Ordinaries(1/1/80)	2215.1	2204.9	2188.1	2215.10	12/12	1823.30	8/2
All Mining(1/1/80)	1021.5	1018.8	1010.9	1089.50	7/8	795.30	8/2
Austria							
Credit Aktien(30/12/84)	342.20	341.22	(c)	385.42	2/1	320.88	27/10
Traded Index(2/1/91)	980.52	983.55	(c)	1080.31	2/1	882.15	23/10
Belgium							
BEL20(1/1/91)	1550.86	1530.47	1516.43	1550.86	12/12	1271.58	9/3
Brazil							
Bovespa(29/12/83)	(u)	43053.0	42883.0	48812.00	19/9	21382.00	9/3
Canada							
Metals Minls♦(1975)	(u)	5124.88	5149.77	5288.37	23/11	3888.83	1/3
Composite♦(1975)	(u)	4730.80	4740.80	4745.10	6/12	3881.41	30/1
Portfolio§§(4/1/83)	(u)	2342.77	2337.39	2342.77	11/12	1853.38	30/1
Chile							
IGPA Gen♥(31/12/80)	(u)	5595.01	(c)	6083.16	11/7	4576.80	9/3
Denmark							
CopenhagenSE(3/1/83)	365.18	365.30	366.32	376.44	25/8	330.81	29/3
Finland							
HEX General(28/12/90)	1875.93	1880.17	1843.57	2332.22	14/8	1655.30	29/3
France							
SBF 250(31/12/90)	1218.69	1219.78	1225.56	1332.39	12/5	1164.41	13/3
CAC 40(31/12/87)	1848.94	1849.59	1856.33	2017.27	12/5	1721.14	23/10
Germany							
FAZ Aktien(31/12/58)	818.03	815.32	808.83	848.78	19/9	708.87	30/3
Commerzbank(1/12/53)	2370.4	2363.8	2345.8	2427.80	19/9	2018.70	30/3
DAX‡(30/12/87)	2280.77	2272.82	2267.50	2317.81	15/9	1910.96	28/3
Greece							
Athens SE(31/12/80)	896.26	898.67	901.35	992.80	4/8	787.18	18/3
Hong Kong							
Hang Seng(31/7/64)	9927.79	9835.17	9883.61	10032.88	17/10	6967.93	23/1
India							
BSE Sens.(1979)	3033.83	3044.23	3083.32	3592.80	2/1	2922.16	29/11
Indonesia							
Jakarta Comp.(10/8/82)	498.98	500.00	506.12	519.18	11/8	444.21	19/4
Ireland							
ISEQ Overall(4/1/88)	2243.17	2233.22	2250.49	2283.71	7/12	1893.80	23/1
Italy							
Banca Comm Ital(1972)	570.34	564.12	(c)	682.54	10/2	547.79	5/12
MIB General(2/1/95)	900.0	890.0	(c)	1076.00	10/2	889.00	5/12
Japan							
Nikkei 225(16/5/49)	19312.77	19226.78	19286.97	19684.04	4/1	14485.41	3/7
Nikkei 300(1/10/82)	287.58	286.26	287.35	289.22	7/12	222.26	13/6
Malaysia							
KLSE Comp.(4/4/86)	979.25	974.78	978.95	1085.84	5/6	940.87	24/1
Mexico							
IPC(Nov 1978)	(c)	2607.84	2655.39	2724.88	29/11	1447.52	27/2
Netherland							
CBS TRtnGen(End 83)	324.8	324.3	323.2	324.80	12/12	422.80	23/3
CBS All ShrEnd 83)	317.8	317.5	316.8	317.80	12/12	265.20	23/3
New Zealand							
Cap. 40(1/7/86)	2135.72	2132.17	2120.52	2208.82	20/10	1901.43	5/1
Norway							
Oslo SE(Ind)(2/1/83)	1238.04	1242.26	1238.88	1292.18	18/10	1036.00	10/3
Philippines							
Manila Comp(2/1/85)	2460.05	2496.04	2500.84	2898.12	10/7	2195.49	20/11
Portugal							
BTA(1977)	2482.4	2480.8	(c)	2911.80	9/1	2412.90	22/11
Singapore							
SES All-S'pore(2/4/75)	528.86	524.95	525.71	536.06	5/1	472.90	23/1
South Africa							
JSE Gold(28/9/78)	1388.6♥	1400.6	1370.8	2093.00	2/1	1258.28	30/10
JSE Ind.(28/9/78)	7945.3♥	7882.2	7870.3	7945.80	12/12	6222.80	31/1
South Korea							
KoreaCapEx**(4/1/80)	943.22	947.75	958.67	1027.37	2/1	847.09	27/5
Spain							
Madrid SE(30/12/85)	314.28	314.34	(c)	318.98	13/9	284.86	23/3
Sweden							
AffarsvarldsGen(1/2/37)	1718.9	1721.2	1719.3	1872.16	19/9	1430.80	29/3
Switzerland							
Swiss Bk Ind(31/12/58)	1507.51	1501.09	1493.85	1508.60	4/12	1174.83	13/3
SBC General(1/4/87)	1124.26	1117.12	1112.44	1124.28	12/12	878.58	13/3
Taiwan							
WeightedPr.**(30/6/66)	4859.40	4858.13	4836.04	7051.49	5/1	4503.37	14/8
Thailand							
Bangkok SET(30/4/75)	1255.39	(c)	1282.64	1472.64	10/7	1135.89	16/3
Turkey							
Istanbul Cmp.(Jan 1986)	39753.4	39953.2	41845.4	54003.98	21/4	26044.31	23/1
WORLD							
MS Capital Intl(1/1/70)	727.0*	727.9	726.9	728.30	7/12	609.21	23/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1476.58	1468.23	1467.57	1480.80	15/9	1222.41	13/3
Euro Top-100(26/6/90)	1328.81	1321.61	1314.90	1328.81	12/12	1117.34	9/3
JCapsEmgm(31/12/88)	(u)	333.82	334.47	349.47	14/7	282.07	23/1
Barings Emerg.(7/1/92)	144.20	144.48	144.55	168.07	2/1	117.35	10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
Dec	1858.0	1856.0	-3.0	1875.0	1855.0	12,530	40,697
Jan	1871.5	1864.5	-3.0	1881.0	1864.5	921	4,510
DAX							
Dec	2279.0	2278.0	-4.0	2294.5	2275.0	22,380	84,085
Mar	2302.0	2298.5	-8.0	2316.0	2297.0	8,181	81,795

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
OMX							
Dec	1359.00	1352.75	-4.75	1360.00	1352.25	2,574	13,918
Jan	1369.00	1365.00	-1.00	1370.00	1363.25	1,282	1,822
SOFFEX							
Dec	3268.0	3279.0	+17.0	3281.5	3268.0	4,758	12,452
Jan	3276.0	3288.8	+11.9	3289.0	3276.0	3,219	6,472

** Sat Dec 9 : Taiwan Weighted Price 4884.82 ; Korea Comp Ex 952.87. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Dec 12 - 2278.84 -1.75.

US INDICES

Dow Jones	Dec 11	Dec 8	Dec 7	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	5184.32	5156.86	5159.39	5199.13 (8/12)	3832.08 (30/1)	5199.13 (8/12/95)	41.22 (2/7/32)
Home Bonds	105.34	105.12	104.96	105.29 (5/12)	93.63 (3/1)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2060.76	2071.24	2076.74	2092.11 (5/12)	1473.19 (3/1)	2092.11 (5/12/95)	12.32 (8/7/32)
Utilities	219.60	218.53	218.36	221.13 (6/12)	183.03 (3/1)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5225.50 (5200.21) Low 5122.18 (5115.31) (Theoretical♦)
Day's high 5194.43 (5176.65) Low 5145.86 (5137.71) (Actual♦)

Standard and Poors	Dec 11	Dec 8	Dec 7	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite‡	619.52	617.48	616.17	620.18 (8/12)	459.11 (3/1)	620.18 (8/12/95)	4.40 (1/6/32)
Industrials♥	726.59	726.37	724.04	727.80 (8/12)	546.28 (3/1)	727.80 (8/12/95)	3.62 (21/6/32)
Financial	62.45	62.71	62.76	63.66 (8/12)	41.64 (3/1)	63.66 (8/12/95)	8.64 (1/10/74)
NYSE Comp.	330.17	329.02	328.77	330.93 (8/12)	250.73 (3/1)	330.93 (8/12/95)	4.46 (25/4/42)
Amex Mkt Val	536.65	535.55	535.71	553.58 (12/9)	433.12 (5/1)	553.58 (12/9/95)	29.31 (9/12/72)
NASDAQ Comp	1061.50	1062.41	1053.18	1069.79 (4/12)	743.58 (3/1)	1069.79 (4/12/95)	54.87 (31/10/72)

RATIOS

	Dec 8	Dec 1	Nov 24	Year ago
Dow Jones Ind. Div. Yield	2.27	2.30	2.32	2.88
	Dec 6	Nov 29	Nov 22	Year ago
S & P Ind. Div. yield	1.95	2.00	2.01	2.48
S & P Ind. P/E ratio	18.98	18.64	18.36	18.29

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Hanson Plc	10,206,900	15	+⅛
Micron	4,853,400	54½	-⅛
Cable & Wire	4,056,800	20⅛	-⅛
Compaq	3,798,300	49¾	+⅞
Kmart	3,509,000	8	+⅛
Motorola	3,143,900	62⅜	+⅝
Baker Hughes	3,013,600	22⅝	+1⅛
Wabash Nat	2,884,300	19⅝	-6⅛
LSI Logic	2,857,700	36⅝	-1⅛
Dresser Ind	2,532,900	23½	+½

TRADING ACTIVITY

● Volume (million)	Dec 11	Dec 8	Dec 7
New York SE	342.055	327.497	379.285
Amex	16.837	23.875	22.345
NASDAQ	434.857	488.301	503.076
NYSE			
Issues Traded	3,093	3,073	3,097
Rises	1,197	1,115	860
Falls	1,128	1,163	1,567
Unchanged	768	795	670
New Highs	197	128	159
New Lows	20	21	23

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
S&P 500							
Dec	618.90	619.45	-0.35	620.00	618.70	32,667	104,645
Mar	625.90	625.65	-0.25	626.25	624.75	82,249	129,717

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Nikkei 225							
Mar	19340.0	19400.0	+120.0	19460.0	19300.0	18,326	125,702
Jun	19310.0	19390.0	+170.0	19390.0	19310.0	224	17,567

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Tuesday, December 12, 1995

	Stocks Traded	Closing Prices	Change on day
Toshiba	14.0m	800	
Toho Zinc	8.3m	765	-17
Nip Steel	6.0m	353	-1
Pacific Mtls	5.1m	665	-20
Sumitomo Mtl	4.9m	301	-5
Mitsubishi Hvy	4.7m	831	-5
NEC	4.3m	1300	-20
Daiwa Bank	3.8m	734	+34
Daiwa Secs	3.7m	1500	+10
Yamaichi Secs	3.7m	735	+17

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close December 12

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
19	12⅛	AAR	0.48	2.5	26	990	u19½	18¾	19⅜	+⅝
46¼	35	AMP	0.92	2.3	20	3720	40⅞	39⅞	40	
80¼	53⅛	AMR			17	8642	77⅝	76	76½	-1
47⅞	36⅛	ASA	1.71	4.4	25	992	39¾	38¾	39¼	-¾
44¾	30¾	AbbotL	0.84	2.0	20	11427	42¼	41½	41½	-⅛
18⅞	12	Abitibi Pr x	0.40	2.8	7	3247	14¼	13⅞	14¼	
28½	21	ABM Ind	0.60	2.2	15	23	27⅝	27½	27½	-¼
17½	13⅛	Acptncein			10	323	15	14⅝	14¾	-¼
40	21⅞	ACE Ltd	0.56	1.4	9	764	39	38½	38⅞	+⅛
9⅞	8⅛	ACM Gvt In x	0.90	9.5	8	474	9⅝	9½	9½	
7¾	6½	ACM GvOpp x	0.66	8.8		138	7½	7⅜	7½	
7½	5¾	ACM Gvt Sp x	0.75	11.1		304	6⅞	6¾	6¾	-⅛
8¾	7¼	ACM Gvt Se x	0.90	10.6		1184	8⅝	8⅜	8½	
9½	7⅝	ACM Man x	0.90	10.1		213	8⅞	8¾	8⅞	+⅛
29¼	10¼	AcmeClv	0.48	2.2	38	69	21¾	21	21½	+½
38¾	7⅜	Acme Elect			64	189	8	7⅝	7¾	-¼
34½	23¾	Acordia x	0.72	2.5	15	20	28⅜	28¼	28¼	-¼
16¾	10⅛	Acuson			37	404	12⅛	11⅝	12	+½
19⅝	15⅝	Adams Expr	0.48	2.6	0	117	18½	18⅜	18⅜	
38⅞	2⅞	AdvMic			6	8815	19⅛	18½	18⅝	-⅝
9¾	5	Advest Grp	0.16	1.8	12	52	9	8⅞	8⅞	
27½	16½	Advo Inc	0.10	0.4	19	547	26½	26¼	26⅜	+⅛
42⅝	24.80	Aegon	1.28	3.1	15	81	42¼	41¾	42	-⅜
5⅞	3⅜	Aerflx			7	211	4¼	4⅛	4⅛	-⅛
76¾	46¾	AetnaL	2.76	3.9	33	6361	71¾	70⅛	70⅛	-1½
44¾	31⅞	Aflac	0.52	1.2	12	1251	42⅜	41½	41¾	-⅝
[illegible]										

- B -

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
37⅛	24⅛	BcrpHawaii	1.09	3.0	14	281	36¼	36	36¼	
65⅞	49	Bandag	0.80	1.5	13	298	52⅞	52⅜	52¾	+¼
68½	39½	BankAm	1.84	2.7	10	8112	67¾	66½	67¼	+¼
84½	74	Bank Bost	5.56	6.8		z10	82	82	82	
50⅛	25½	BkBstn	1.48	3.3	10	19211	48½	45¼	45⅛	-1¼
47½	40¾	Bk Bostn P	3.04	6.6		16	46¾	46	46	-¾
49	28½	BankNY	1.44	3.2	10	4028	46⅛	45⅜	45⅝	-⅝
50	42	BankAm A	3.25	6.8		16	48⅜	48⅛	48⅛	-⅛
95⅜	71½	BankAm B	6.00	6.6		19	90½	90	90¼	-½
72	49¾	BnkTst	4.00	5.9	38	1934	68⅛	67½	67¾	+⅛
50¼	36	Bclays	1.54	3.2	9	7	47½	47½	47½	
31¾	25½	Bard (C R)	0.64	2.1	23	392	30½	30	30¼	-¼
45¾	36¼	Barnes Grp x	1.60	4.3	9	41	37¼	37⅛	37¼	+⅛
62¼	38¼	BarnBk x	1.88	3.1	11	1069	60⅜	58⅞	60	-⅜
27⅝	19¾	BrckGd x	0.12	0.4	34	7483	27⅜	26¾	26¾	-⅜
29⅝	7½	Barry(RG)			36	306	21¼	20⅜	20⅜	-½
12⅜	7⅝	BattlMt	0.05	0.6	123	2577	8⅞	8⅝	8⅝	-⅛
44½	30⅞	Bausch x	1.04	2.8	39	1935	37⅜	36½	37⅛	+⅛
44¾	25¾	Baxter x	1.13	2.7	17	53863	41½	40⅞	41¼	+¼
28⅜	22¼	Bay St Gas	1.50	5.4	16	60	28⅛	27⅞	27⅞	
22	19	Bd Tr 1838	1.64	7.7		56	21⅜	21¼	21⅜	-⅛
8⅛	6⅞	BEA IncFd				189	7⅞	7¾	7¾	-⅛
8⅞	8½	Bea Strat	0.81	9.3		79	8¾	8⅝	8¾	
23⅜	15⅜	Bear Stns	0.60	2.8	10	1303	21¼	21	21⅛	-⅛
44½	40¾	BearStPfA	2.75	6.2		2100	44⅜	44⅜	44⅜	
26½	18.33	Bearings	0.56	2.2	16	462	26	25⅜	25½	-¼
35⅞	28½	Beckman In	0.44	1.3	19	257	35⅛	34½	34⅞	
75⅛	48	BectnD x	0.82	1.1	20	1390	u76	74½	75⅜	+⅝

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4 pm close December 12

NYSE COMPOSITE PRICES

Continued from previous page

1995 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
33¾	24¼	SaraLee x	0.68	2.1	19	4944	33¼	32⅞	33⅛	-⅛
57¼	38⅝	SBC Cm	1.65	2.9	16	2907	56⅞	55⅞	56	+⅛
27	20½	Scana Corp	1.44	5.5	16	435	26¼	26⅛	26⅛	-¼
18	14½	Scecorp	1.00	6.2	9	9786	16⅛	15¾	16⅛	+⅜
11¼	6⅛	SchawkA	0.28	4.0	16	27	6½	6¼	6½	+⅛
50¾	37¼	SchererRP			23	485	46⅞	44⅞	44⅞	+⅜
60¾	35½	SchrPl	1.16	2.0	21	7405	58⅞	57⅞	58⅜	-⅞
69⅞	50⅛	Schlmb x	1.50	2.2	26	6264	69¾	68½	69⅜	
29	11¼	Schwab(C)	0.16	0.8	22	6822	21¼	20⅝	20⅝	-¼
23⅝	20⅜	SchwMaud				4908	23⅛	23	23	-¼
24⅞	11⅝	SciAtl x	0.06	0.4	22	1007	16	15⅝	15⅞	-⅛
20	15⅛	Scotsman	0.10	0.6	10	215	16½	16⅜	16½	-¼
60⅝	33½	ScotP	0.48	0.7	17	4788	u61⅝	60	61⅛	+1½
40⅝	26⅞	Scripps	0.52	1.3	27	816	40	39⅝	39¾	-⅛
21½	13⅞	ScuddrNAsF	0.02	0.1		270	15⅛	14⅞	15	+¼
11⅞	8⅝	ScuddrNEuF x	0.16	1.4		503	11¼	11⅛	11⅛	-⅛
20	13⅜	SeaCnB	0.70	4.1	1	14	17¼	17¼	17¼	-⅜
16¾	14⅝	SeaCt.4625 x	1.46	9.6		9	15⅝	15¼	15¼	-¼
54¾	23⅝	S'gate			11	7558	54⅛	52¾	53¼	-⅞
39½	25⅝	Seagrm	0.60	1.6	25	1752	38⅝	38¼	38⅝	+⅜
22½	15¼	Seagull En			65	958	19¾	19¼	19½	-⅜
30⅜	18	Sealed Air			24	1076	28¾	28⅛	28⅛	-⅜
40⅝	30⅜	SearsR x	0.92	2.4	10	6553	39⅝	38¾	39	-½
20⅝	18⅝	SecCapSBI	1.15	5.8	23	768	20⅛	20	20	-⅛
12⅞	10⅜	Seligm Sel	0.84	6.6		129	12⅞	12⅝	12¾	
38¼	19⅛	Sensormat	0.22	1.1	18	4402	20	19¼	19⅝	+⅛
32⅛	21⅞	SequaA	0.60	2.1	12	80	28⅜	28⅜	28½	-⅜

1995 High	Low	Stock	Div	Yld %
28⅝	19¼	Taiwan Fd	0.02	0.1
10⅞	7⅜	Talleyind x	0.42	5.5
17⅛	12½	Talley Pf x	1.00	7.2
58	37⅞	Tmbrds x	1.76	3.5
19¾	10	Tandem		
64⅝	40½	Tandy	0.72	1.5
10½	9	Taurus Mun	0.64	6.4
3	1⅞	TCCInd		
25⅛	20	Teco Energ	1.06	4.3
61⅞	31⅜	Tktrx	0.80	1.1
29¼	24¼	TeleDa	0.93	3.5
27⅞	19¾	Teldyn	0.40	1.6
44	33¼	TeleEspSA	1.19	2.9
41½	23	Telmex	0.87	2.8
65¾	41½	Templel x	1.20	2.7
22⅛	16⅝	TemplEmMk	0.10	0.5
7⅛	5¾	TempltGlob	0.60	8.4
7¾	6⅜	TempltGlFd x	0.60	8.6
50⅝	41⅞	Tenneco	1.60	3.7
37	25¾	Teppco Pp	2.60	7.1
48	16	Teradyne		
7⅛	3⅛	Terex	0.06	1.3
14⅞	9¾	Terra Inds	0.12	0.8
12	7¼	Tesoro		
79⅞	59¼	Texaco	3.20	4.0
55¼	30⅛	Texas Ind	0.40	0.8
80½	34½	TxInst	0.68	1.3
28¾	17	Texas Pac	0.40	1.7
39	30⅛	TxUtil x	3.08	8.0
3⅜	2⅞	Textil Inds	1.10	38.7

- V -

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- X - Y - Z -

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AMEX COMPOSITE PRICES

4 pm close December 12

NASDAQ NATIONAL MARKET

4 pm close December 12

- K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J -

AMERICA

PPI figures send bonds, equities lower

Wall Street

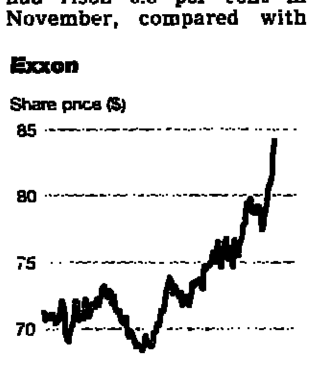
US shares slipped in early trading yesterday as stronger than expected figures on producer prices sent the bond market lower, *writes Lisa Bransten in New York.*

At 1 pm the Dow Jones Industrial Average was 9.40 down at 5,174.92. The Standard & Poor's 500 lost 1.20 at 618.32 and the American Stock Exchange composite was off 0.51 at 535.14. Volume on the New York Stock Exchange was 196m shares.

The benchmark 30-year Treasury bond fell half a point after the Labor Department reported that the producer price index had risen 0.5 per cent in November, compared with expectations of a 0.2 per cent increase.

Exxon

Share price ($)



Source: FT Extel

Several economists said that the data indicated a resumption of inflationary pressures, and the figures dashed some hopes that the Federal Reserve would lower interest rates at next week's meeting of its Open Market Committee.

Cyclical shares, which would be among the primary beneficiaries of lower interest rates, were lower yesterday. The Morgan Stanley index of cyclical shares declined 0.9 per cent, while the counterpart index of consumer shares edged up 0.1 per cent.

Falling cyclical issues included Allied Signal, off $1¾ at $47⅞, United Technologies, $1¼ lower at $94¼, and Union Carbide, which fell $⅞ to $37⅞.

Oil companies continued to rally as extremely cold weather in the Midwest and on the east coast spurred hopes for a profitable winter.

Exxon added $⅞ to the $2⅝ it rose on Monday, bringing the shares to $84⅝, and Chevron gained $¼ on the heels of Monday's $1⅝ increase, putting the shares at $71½. Both Exxon and Chevron are among the 30 companies that make up the Dow Industrial Average.

Meanwhile, technology shares weakened sharply on a sign that semiconductor sales may be slowing.

The semiconductor industry's ratio of orders placed to orders shipped fell to 1.14 in November, compared with 1.18 in October.

The technology-laden Nasdaq composite shed 6.58 to 1,054.92 and the Pacific Stock Exchange technology index was 1.1 per cent lower.

Declining semiconductor and semiconductor equipment companies included Intel, which was $1 lower at $62¼, Lam Research, off $2¾ at $51, and Applied Materials, which fell $2¾ to $45⅛.

On the NYSE, LSI Logic dropped $2½ or 6.7 per cent to $33⅞. Texas Instruments was $1⅛ cheaper at $54⅞ and Micron Technology slipped $1⅝ to $52⅞.

Canada

Toronto was weak in midsession as profit-taking and year-end tax loss selling hit a number of large issues.

The TSE 300 composite index fell 25.94 by noon to 4,713.90 in hefty volume of 40.7m shares.

Analysts noted that sector rotation was a major feature of the market, with some dealers expecting that forest products issues, which had been under pressure in recent weeks, could soon see an upturn in their fortunes.

Among heavily traded stocks, Cameco gave up C$¼ to C$50 after Wood Gundy crossed a 3m-share block. Potash Corporation of Saskatchewan retreated C$1½ to C$95¾, with a 2m-share block crossed by Wood Gundy.

Corel added to Monday's C$1⅞ decline with another of C$1¼ to C$20¼.

Brazil rises by 1.5%

São Paulo was up 1.5 per cent by early afternoon in spite of news that the National Development Bank had suspended the process of selecting advisers for the privatisation of Vale, the mining company.

The suspension was likely to delay the sell-off process of the company. The Bovespa index was up 634 at 43,696.

Analysts said that speculation ahead of tomorrow's futures and options settlements was likely to dominate trading.

BUENOS AIRES saw selective strength in some blue chips help to push the broader market into positive territory by midsession. The Merval index had gained 7.26 or 1.6 per cent at 469.02.

Traders expected the market to be boosted by strong bidding for the government's 39 per cent stake in Edesur, the utility. The government was offering 387m Edesur shares on the market and the tender results were due to be unveiled after the close.

● Mexico City was closed for a public holiday.

Industrials lead S Africa ahead

Johannesburg industrials moved smartly higher in early, futures related trade and ended well supported at their higher levels. Golds, however, attracted little attention on the day as they drifted lower on disappointment at bullion's failure to renew its assault on the $390 an ounce mark.

The overall index was 39.8 higher at 6,283.3, industrials rose 62.5 to 7,944.7 and golds dipped 11.4 to 1,389.2.

De Beers put on R1.25 at R116.25, SAB was R2 up at R131 and Iscor lost 4 cents at R3.25. Southvaal relinquished R3 at R92 but Freegold improved 85 cents to R32.

EUROPE

Paris retreats as Moulinex drops another 7%

Having seen gains for most of the session, PARIS eased in late trading. The CAC-40 index lost 0.65 at 1,848.94, and only retreated into the negative zone in the last 30 minutes of trading, as technical selling depressed activity.

Among weaker stocks, Moulinex declined a further FFr5.50 or 7 per cent to FFr72 following disappointment over its first-half results to September 1995 which were released on Monday.

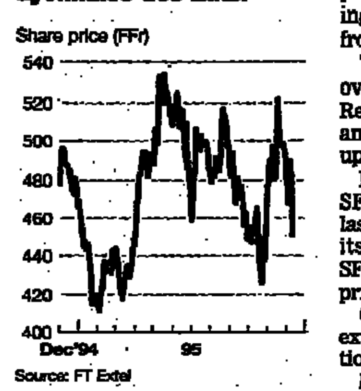
Some brokers yesterday moved to change their recommendations on the stock given news that the company's restructuring programme was taking longer than had been expected. One domestic broker said that it now expected the appliance manufacturer to report a full-year loss of FFr70m.

Lyonnaise des Eaux was another losing stock, off FFr24.90 to FFr450 on worries about the declines in profits at some of its subsidiaries.

L'Oréal went against the trend with a rise of FFr4 to FFr1,279. James Capel said that the French company's intended acquisition of Maybelline, of the US, would lift its gearing to 13 per cent, but considered that the takeover made sense. "The acquisition . . . represents a shift down-market in the US, while L'Oréal's existing brands are geared towards the middle and upper range," the broker remarked.

Lyonnaise des Eaux

Share price (FFr)



Source: FT Extel

Usinor Sacilor slipped another FFr2.55 to FFr65.40 following a sharp loss on Monday as it issued a profits warning.

ZURICH was again propelled higher by a firming dollar and renewed speculation about further cuts in interest rates.

The SMI index rose 19.3 to 3,280.9, just short of its all-time closing peak.

Zurich Insurance moved ahead SFr6 to SFr355 as Standard & Poor's affirmed its triple-A claims paying ability rating and removed the company from CreditWatch.

The upbeat mood spilled over to other insurers. Swiss Re advanced SFr12 to SFr1,330 and Winterthur Insurance was up SFr12 at SFr837.

Elektrowatt, down SFr8 at SFr381, began consolidating last week's sharp gains after its bid for Landis & Gyr, up SFr10 to the Elektrowatt bid price of SFr950.

Ciba put on SFr5 at SFr1,018, extending its technical correction after last week's steep fall.

MILAN was supported by short-covering and year-end buying which took the Comit index ahead 6.22 to 570.34, while the real-time Mibtel index picked up 102 to 9,125.

Olivetti turned back after the 21 per cent surge of the previous two sessions, partially explained yesterday by news that Merrill Lynch was launching 150m warrants on the shares. Earlier, many analysts had been puzzled by the stock's performance, given the company's past history of failing to live up to market expectations. The shares lost L49 to L1,252 on profit-taking.

News that Mr Giovanni Agnelli would pass on the Fiat chairmanship to Mr Cesare Romiti, the managing director, had little impact as the succession was not expected to bring about any changes in company performance or strategy. The shares gained L99 at L5,105.

FRANKFURT moved a number of stocks on dividend indications, but the broad market remained concerned with holding its ground. The Dax index closed 1.75 down at an Ibis-indicated 2,278.64, turnover rising from DM4.8bn to DM6.4bn.

Dealers liked a 44 per cent rise in profits, and a 25 per cent lift in the payment from Degussa, and the metals, chemicals and pharmaceuticals group ended DM7.50 higher at DM475.50.

They were even more positive about the potential return to the dividend list of Kugelfischer, among a package of current and prospective growth indicators from the recovering ball bearings manufacturer, and the shares advanced DM9 or 5.1 per cent to DM187.

However, the market was less kind to MAN, as the engineer and truckmaker forecast better results and a "friendlier" payout for 1995-96, but said it was unlikely to match the 1991-92 dividend peak of DM12 this year. The shares, ex a dividend raised for 1994-95 from DM7 to DM9.50, relinquished a net DM4 to DM405. Mr Chris Heminway of Lehman Brothers said that the market was less worried by the dividend news than by a fall of 15 per cent, year on year, in group orders for the months of October and November.

AMSTERDAM fell back slightly following a good opening as Wall Street started easier. The AEX index slipped 0.23 to 479.04, after a session's high of 481.62.

Polygram was one of the day's biggest losers, off Fl 4.30 at Fl 92.50, as US institutions continued to sell.

Among cyclical stocks in decline, Akzo Nobel was off Fl 1.10 at Fl 183, DSM fell Fl 2.90 to Fl 123.10, Hoogovens receded Fl 1.00 to Fl 51.30 and KNP BT shed Fl 1.10 to Fl 40.50.

Financials closed higher on hopes that US interest rates would soon come down: ABN Amro added 80 cents at Fl 71.90, ING gained 70 cents at Fl 105.20 and Fortis Amev put on 40 cents at Fl 107.50.

ISTANBUL saw minor losses, as the market recovered from early lows in a session which concentrated on export-driven shares which were expected to gain the most from EU customs union.

The composite index lost 199.80 to 39,753.49 in quiet trading of TL5,300bn, against Monday's TL6,890bn.

The European parliament was expected to vote today on whether the EU and Turkey would establish a customs union on January 1.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Dec 12 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1474.78	1474.87	1475.52	1477.01	1476.60	1477.34	1477.30	1476.53
FT-SE Eurotrack 200	1584.13	1583.69	1584.14	1585.22	1585.72	1583.88	1585.18	1586.45

	Dec 11	Dec 8	Dec 7	Dec 6	Dec 5
FT-SE Eurotrack 100	1468.23	1467.57	1462.47	1464.49	1452.97
FT-SE Eurotrack 200	1574.10	1566.07	1565.72	1569.69	1560.55

Base 1000 (26/10/90); Highday: 100 - 1478.10; 200 - 1586.73 Low/day: 100 - 1474.32 200 - 1582.48 † Partial

Written and edited by William Cochrane, Michael Morgan and John Pitt

ASIA PACIFIC

Nikkei gains ground on rally in banks, retail sectors

Tokyo

The Nikkei average gained ground for the first time in three trading days owing to a rally in banks, real estate and retail stocks, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 index closed 85.99 up at 19,312.77 after moving between 19,233.76 and 19,390.00. Although profit-taking by foreign investors and domestic institutions depressed the high-technology sector, the index ended higher on speculation of a cut in property taxes, which lifted the real estate and department store sectors.

Volume was 400m shares, against 366m. The Topix index covering all first section stocks on the Tokyo stock exchange rose 5.75 to 1,529.41, and the Nikkei 300 gained 1.32 at 287.58. Advances led declines by 533 to 511, with 172 issues unchanged.

In London the ISE/Nikkei 50 index put on 4.30 at 1,332.91.

Activity by overseas investors dominated trading. Banks were higher on purchases by foreigners expecting a solution to the bad loan problem of housing loan companies at the end of the month; while they also took profits on high-technology stocks ahead of year-end book closing.

Industrial Bank of Japan moved ahead Y50 to Y3,130 and Sumitomo Bank gained Y20 at Y2,140.

The decline in the book-to-bill ratio of the US semiconductor market also depressed high-technology issues. Fujitsu dropped Y30 to Y1,210 and NEC declined Y20 to Y1,300. Toshiba, the day's most active stock, was unchanged at Y800.

Kyocera, the ceramic package maker for semiconductors, lost Y150 to Y7,540 on foreign selling. Overseas investors, discouraged by a ratings cut from a US brokerage, sold the stock heavily on Monday.

Game makers, on the other hand, were higher on hopes of increased year-end revenue. Sega Enterprises appreciated Y130 to Y5,630 and Nintendo added Y110 at Y7,920.

Real estate stocks gained following a decision by a project team for the ruling coalition to ease land taxes. Mitsubishi Estate rose Y20 to Y1,240. Department stores, which would benefit from a cut in property taxes, also improved. Mitsukoshi advanced Y9 to Y910 and Tokyu Department Store added Y11 at Y651.

In Osaka, the OSE average rose 32.26 to 20,708.25 in volume of 194m shares.

Roundup

SEOUL was weak in very thin volume as investors gave a negative response to a speech by President Kim Young-sam in which he vowed to re-establish the nation's honour after the recent series of political humiliations that put two former presidents into detention.

Investors were said to have been disappointed that the president gave no clear statement of his relationship with the slush fund scandal.

The composite index finished 4.53 off at 943.22 in volume of just 15.3m shares.

Samsung Electronics fell Won1,500 to Won152,000 on worries about the future of the memory chip market. Posco lost Won1,400 at Won56,300 after a negative report by Dongbang Securities helped to dampen sentiment.

HONG KONG was higher on growing expectations of a US interest rate cut and after further strong gains on Wall Street overnight. The Hang Seng index gained 92.62 at 9,927.79 in turnover that picked up to HK$3.2bn.

HSBC Holdings rose HK$1.50 to HK$116.50, while Hang Seng Bank ended 50 cents ahead at HK$69 after touching a high for the year of HK$69.25.

Hopewell Holdings appreciated 12.5 cents to HK$4.15 on foreign demand after an issue of call warrants on the stock on Monday caused some follow-through buying.

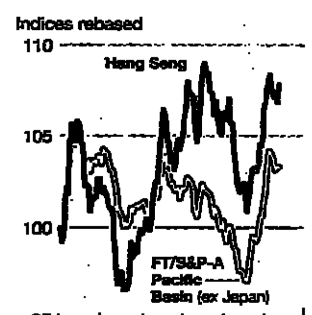
BANGKOK was a loser in thin trading conditions after domestic retail investors and mutual funds took profits on last week's gains.

The SET index receded 7.25 to 1,255.39.

Brokers said that several rounds of profit-taking emerged in the afternoon and reported that the inflow of foreign mutual funds had slowed to a trickle.

Hong Kong

Indices rebased



Source: FT Extel

SINGAPORE edged ahead on selective bargain hunting in some index stocks by institutional funds and the Straits Times Industrial index ended 8.38 firmer at 2,154.27.

Net gainers included the rig builder Far East Levingston, up 30 cents at S$6.40, and Bukit Sembawang Estate, which rose 20 cents to S$30.20.

KUALA LUMPUR rebounded after a three-day retreat, but analysts said that further large movements were unlikely ahead of the Christmas holidays due to a lack of foreign participation.

The composite index closed 4.47 better at 979.25. Matsushita Electric rose 70 cents to M$20.50 after announcing an 18 per cent jump in half-year net profits.

SHANGHAI's hard currency B index ended at a third successive low for the year, down 0.82 or 1.7 per cent at 48.672, having recorded an all-time intra-day low of 48.55 in afternoon trade. SHENZHEN's hard currency B index fell below 60 points as overseas investors trimmed positions before the end of the year. The index shed 0.48 to 59.56.

SYDNEY ended firmer after mid-morning profit-taking pared some of the early gains which followed a good performance on Monday by most of the major issues.

The All Ordinaries index rose 10.2 to 2,215.1 in turnover of A$457.9m.

BHP moved forward 17 cents to A$19.15 on the session's biggest turnover of A$53.2m ahead of its interim results due on Friday.

TAIPEI moved slightly ahead in spite of worries that a possible split within the ruling Nationalist party could cause political turbulence in the near future. The weighted index was up 1.27 at 4,959.40.

MANILA fell 1.4 per cent as investors were disturbed by reports of two murders. The composite index, losing ground for the fourth consecutive session, dipped 36.05 to 2,459.99.

A Filipino Chinese industrialist and a five-year-old boy were killed in a series of ambushes on Monday.

WELLINGTON regained its confidence after a nervous start to the session and the NZSE-40 capital index finished 3.55 higher at 2,135.72.

JAKARTA retreated on profit-taking in Telkom and other big capitalised stocks as foreign investors, who had led the recent market rally, remained absent. The composite index lost 3.02 or 0.6 per cent at 496.98, after touching a low for the day of 494.89.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	MONDAY DECEMBER 11 1995								FRIDAY DECEMBER 8 1995					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (82)	187.85	0.6	181.56	119.95	141.04	169.68	0.7	3.92	186.70	181.22	119.49	140.55	168.59	191.01	157.95	166.50
Austria (27)	173.86	0.3	168.06	111.02	130.54	130.44	0.0	1.60	173.37	168.28	110.96	130.51	130.42	199.28	167.48	175.54
Belgium (35)	203.56	1.6	196.77	129.99	152.84	148.99	1.2	3.51	200.45	194.56	128.29	150.89	147.18	203.56	164.78	165.33
Brazil (28)	138.81	-0.1	134.18	88.64	104.22	246.92	-0.1	1.70	138.93	134.85	88.92	104.58	247.10	180.75	86.06	174.63
Canada (101)	147.60	-0.3	142.67	94.25	110.82	147.49	0.1	2.53	148.08	143.73	94.77	111.47	147.32	150.83	121.81	125.79
Denmark (33)	284.31	-0.4	274.82	181.55	213.46	216.32	-0.6	1.51	285.53	277.15	182.74	214.95	217.55	295.99	238.61	239.86
Finland (25)	213.14	2.6	206.03	136.10	160.03	194.39	2.9	1.65	207.82	201.72	133.01	156.44	188.89	276.11	171.13	177.40
France (100)	174.46	-0.5	168.64	111.40	130.99	136.33	-0.5	3.22	175.28	170.13	112.18	131.95	136.98	191.17	157.79	165.41
Germany (59)	162.49	0.6	157.07	103.76	122.00	122.00	0.3	1.97	161.50	156.76	103.36	121.57	121.57	167.74	135.39	135.86
Hong Kong (55)	377.35	-0.2	364.76	240.96	283.33	374.68	-0.2	3.90	378.00	366.91	241.93	284.56	375.33	389.39	277.40	309.71
Ireland (16)	252.48	-0.6	244.06	161.23	189.57	224.27	-1.1	3.41	254.11	246.65	162.64	191.30	226.65	260.87	195.34	195.45
Italy (59)	69.83	0.5	67.50	44.59	52.43	83.20	0.9	1.76	69.45	67.42	44.45	52.29	82.42	82.71	65.45	69.91
Japan (483)	152.73	-0.1	147.64	97.53	114.68	97.53	-0.3	0.78	152.92	148.43	97.87	115.12	97.87	164.82	138.95	151.31
Malaysia (108)	475.66	-0.2	459.80	303.74	357.15	464.94	-0.3	1.77	476.84	462.84	305.19	358.97	466.15	561.96	398.16	448.48
Mexico (18)	961.32	-2.0	929.26	613.86	721.78	8156.24	-1.9	1.70	980.86	952.06	627.78	738.38	8316.59	2016.75	647.81	2015.58
Netherland (19)	266.62	0.5	257.73	170.26	200.19	196.76	0.2	3.32	265.37	257.59	169.84	199.78	196.30	266.70	207.60	207.60
New Zealand (14)	78.01	1.3	75.41	49.81	58.57	64.08	1.0	4.53	77.04	74.78	49.30	57.99	63.43	85.49	69.56	69.79
Norway (33)	227.27	0.3	219.69	145.12	170.64	196.74	0.4	2.13	226.63	219.98	145.05	170.60	195.88	243.79	198.73	201.42
Singapore (44)	388.55	0.5	375.59	248.11	291.74	253.09	0.4	1.61	386.50	375.16	247.37	290.97	252.05	414.26	313.94	346.33
South Africa (45)	389.77	0.6	376.77	248.89	292.65	312.47	0.6	3.82	387.40	376.03	247.94	291.63	310.58	390.56	281.06	319.82
Spain (36)	158.97	0.7	153.67	101.51	119.36	148.22	0.3	3.95	157.91	153.28	101.07	118.89	147.71	160.51	124.10	139.40
Sweden (47)	305.03	-1.4	294.86	194.78	229.03	304.66	-0.1	1.97	309.39	300.31	198.01	232.91	304.86	321.99	225.80	227.55
Switzerland (40)	228.52	0.6	220.90	145.93	171.58	165.61	0.4	1.81	227.11	220.44	145.35	170.96	164.94	230.31	158.38	158.59
Thailand (46)	164.66	0.1	159.16	105.14	123.63	160.59	0.0	2.53	164.49	159.67	105.28	123.83	160.59	184.55	130.15	147.22
United Kingdom (206)	225.02	0.9	217.51	143.69	168.95	217.51	0.5	4.04	222.97	216.42	142.70	167.85	216.42	228.33	187.07	188.68
USA (639)	252.88	0.3	244.44	161.48	189.87	252.88	0.3	2.21	252.17	244.76	161.39	189.83	252.17	253.22	182.92	182.92
Americas (786)	230.25	0.2	222.57	147.03	172.87	193.61	0.3	2.22	229.69	222.94	147.00	172.91	193.11	230.69	171.08	171.08
Europe (737)	196.29	0.5	189.74	125.34	147.38	168.09	0.3	3.04	195.29	189.56	124.99	147.02	167.53	199.02	163.04	164.09
Nordic (138)	276.00	-0.5	266.80	176.24	207.23	236.99	0.3	1.86	277.32	269.18	177.49	208.76	236.19	295.02	215.79	217.60
Pacific Basin (832)	162.65	-0.1	157.22	103.86	122.12	107.81	-0.3	1.22	162.76	157.98	104.17	122.53	108.09	171.87	145.93	158.07
Euro-Pacific (1569)	176.56	0.2	170.67	112.74	132.56	130.66	0.0	2.06	176.21	171.03	112.77	132.65	130.64	178.33	154.73	160.49
North America (740)	246.38	0.3	238.17	157.33	184.99	245.82	0.3	2.22	245.74	238.53	157.28	184.99	245.14	246.80	179.38	179.38
Europe Ex. UK (531)	176.44	0.3	170.56	112.67	132.48	141.13	0.2	2.47	175.95	170.78	112.61	132.45	140.79	179.46	146.45	147.23
Pacific Ex. Japan (349)	258.58	0.2	249.96	165.12	194.15	228.58	0.2	3.24	258.13	250.56	165.21	194.33	226.22	266.72	211.19	226.56
World Ex. US (1761)	177.60	0.2	171.67	113.41	133.34	134.50	0.0	2.11	177.28	172.07	113.46	133.45	134.47	178.73	155.42	162.38
World Ex. UK (2194)	198.32	0.2	191.71	126.64	148.91	163.73	0.1	1.96	198.02	192.20	126.73	149.07	163.58	195.37	163.46	166.20
World Ex. Japan (1917)	227.75	0.3	220.16	145.43	171.00	213.87	0.3	2.58	227.00	220.33	145.26	170.88	213.26	228.28	178.95	179.04
The World Index (2400)	200.70	0.2	194.00	128.16	150.69	168.53	0.1	2.15	200.25	194.37	128.16	150.75	168.30	200.75	165.92	168.19

CONSTITUENT CHANGE WITH EFFECT 12/12/95: Deletion, BTR Nylex (Australia). Markets closed 11/12/95: Thailand. Latest prices were unavailable for this edition.

ITALIAN INDUSTRY AND FINANCE

Business seeks cash not state patronage

Entrepreneurs say commerce would be in even better shape if banks lent more actively and public ownership were cut, writes Andrew Hill

The evolution of the Italian industrial sector was always going to be slow. For a long time it has been the domain of clumsy state-controlled leviathans, circled by shoals of nimbler, often family-owned manufacturers and exporters, with only a few large private-sector groups – a Fiat, an Olivetti or a Pirelli – gaining international status.

Entrepreneurs, bankers and politicians dream of the day the Italian private sector will be able to fund expansion through a mature stock market, patronised by institutional investors and educated small shareholders, and supported by a developed banking system capable of assessing medium and long-term industrial risk.

The gap between the dream and reality is still wide. To a certain extent this is the fault of the same entrepreneurs, bankers and politicians. Family-owned companies are reluctant to seek stock market listings; they also criticise the banks for not providing enough advice and assistance targeted at small and medium-sized enterprises. Politicians are unwilling to release their hold over the sprawling state sector, with all its opportunities for political patronage.

Privatisation for example is still motivated more by economic necessity than political will. The sale of state assets this year should raise some L10,000bn (£4bn), allowing the treasury to retire short-term government bonds and reduce the deficit. The sell-off programme has also turned for the first time to large industrial assets. Last month the treasury sold 15 per cent of Eni, the oil, gas and chemicals group. It is preparing for the flotation in the first half of next year of Enel, one of the world's largest integrated electricity companies, and the sale of further shares in Stet, the quoted telecommunications group controlled by Iri, the state holding company.

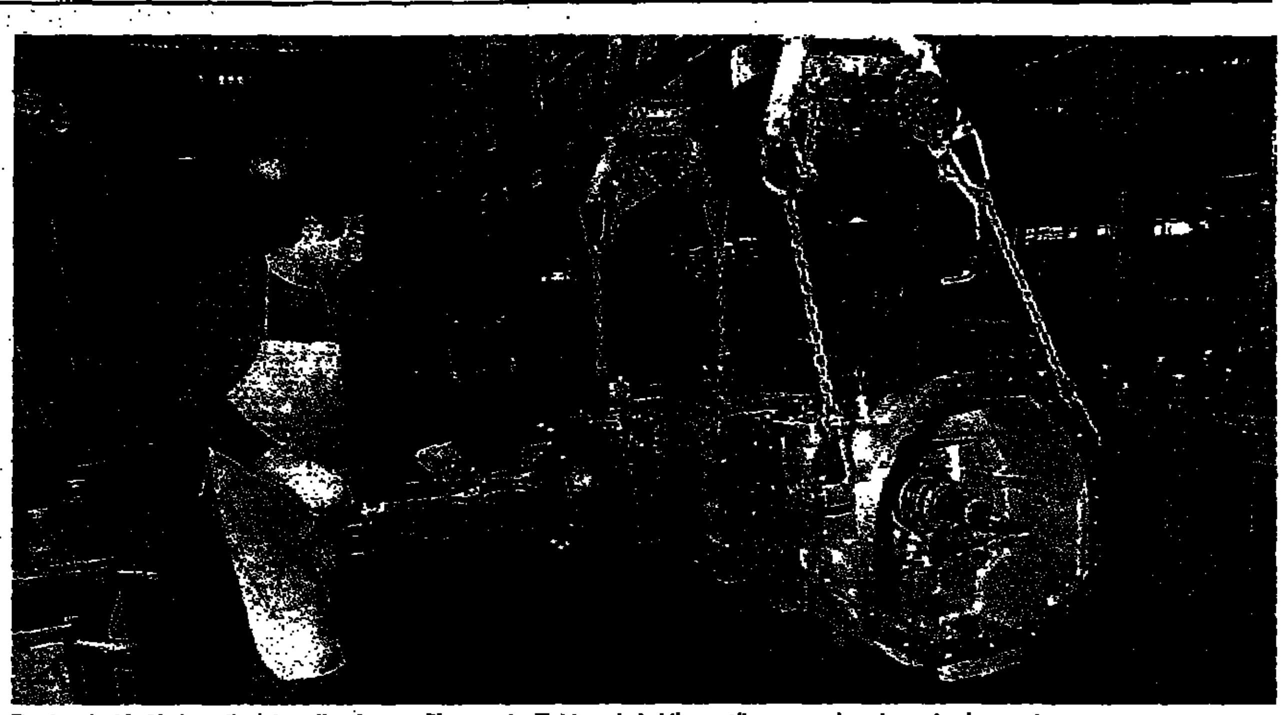
But party politicians – as opposed, that is, to the technocrats in the government of Mr Lamberto Dini – are still used to having their hands on the levers of industrial power. The Eni sale was pushed through ahead of the privatisation of Stet and Enel partly because it did not need to overcome any parliamentary hurdles. The electricity and telecoms sectors, by contrast, needed a regulatory framework. That has now been partly approved by parliament, but only after resistance from the extreme left, which tabled a multitude of amendments to the bill, and less blatant delaying tactics by the far right.

Mr Marco Tronchetti Provera, chief executive of Pirelli, the cable and tyre manufacturer, is a vociferous advocate of further liberalisation in the financial and industrial sector. He says that the presence of the state in industry is still the greatest anomaly in the Italian economy. "The politicians are the only ones who can change that and if it doesn't change, it's because the political class doesn't want it to change," he claims.

Sluggish liberalisation of the state sector has not held back Italy's dynamic small and medium-sized companies, which provide the motor for Italy's economic growth. Istat, the state statistical institute, estimated third-quarter growth in Italy's gross domestic product at 3.4 per cent against last year. If that figure is confirmed in January, it will have beaten government forecasts. Italy's trade surplus also continues to grow, helped by the lira's weakness. Exporters are broadening their target markets to include emerging economies.

Analysts say Italian exporters should now consolidate that export success into manufacturing projects and joint ventures abroad, while seeking backing for further expansion at home. As Professor Fabrizio Onida, head of ICE, the Italian foreign trade commission, puts it: "The next five years are crucial, and the manufacturing sector is being hammered with this message that there is more to internationalisation than exports."

Behind this analysis lurks Italians' fear that as all markets open up to increasing competition, the agility and flexibility of Italy's many small and medium-sized companies will no longer be enough to ensure sustained growth. Analysts say that Italian companies active in internationally competitive sectors need to expand in order to survive.



Tractor plant in Modena: the international recognition won by Fiat has eluded the smaller companies who underpin export success Hugh Routledge

But where will companies find the financial backing for such expansion? Government agencies can back specific projects overseas, while at home they can support investment in depressed regions or sectors. But the government's generosity is limited by the need to reduce the budget deficit and by the objections of Brussels to state subsidies. Rome can no longer back grandiose industrial expansion. Its role is now restricted to propping up crumbling bits of the state sector and easing potential labour conflicts by funding temporary lay-offs, most recently at Olivetti, the loss-making computer manufacturer.

Italy's banks have yet to step into the gap vacated by the state. This is partly because many of the largest banks are still controlled by public-sector foundations, and partly because of a lack of experience.

Until the beginning of this decade only a select band of Italian banks – led by IMI, the former treasury-owned group, and Milan-based Mediobanca – could offer medium and long-term loans to business. Yet most companies which cannot finance their continuing investment programmes internally turn to the banks for expensive short-term loans.

Recently banks have fought shy of this commitment. A recent report by the Milan chamber of commerce noted that "the gap between the real economy and the world of finance had grown", even in the industrial and financial heartland of northern Italy. Loans for investment in the Milan region fell by 1 per cent in the last quarter of 1994 in spite of demands from industry for new development finance.

Lamberto Dini: the technocrat

Marco Tronchetti: the privatiser

Lucio Rondelli: the shareholder

Until recently banks tended to invest directly in companies only when required to convert debt into equity to rescue the business. But some are beginning to see themselves as active partners of Italian businesses on the road to stock market flotation. Mr Lucio Rondelli, chairman of Credito Italiano, privatised last year, told a conference on the stock market last month: "The bank-company relationship could lead to banks taking [temporary] stakes in companies. The entry of a bank into the capital of a company would be a signal to the market about the quality of the investment."

Outside investors are concerned that such a strategy could simply prolong old-style Italian capitalism, built on a network of corporate alliances, such as those fostered by Mediobanca with companies like Fiat, Pirelli, the insurer Generali and Credito Italiano itself. Other Italian bankers argue that commercial banks – newly liberated from the restrictions on their activity which were in force from the 1930s until 1990 – have not yet learned how best to run their traditional banking business, let alone how to judge industrial investment opportunities.

An increasing number of the companies themselves are seeking stock market listings. But the stock exchange authorities still believe more fiscal incentives are necessary to encourage companies to come to the market and savers to invest in them.

Italian newspapers reported, for example, that last month's well-publicised presentation on the stock market by the exchange authorities, banks and local business representatives in Bologna, at the centre of one of Italy's most prosperous regions, attracted an audience of about 70, many of them consultants, accountants and intermediaries. By contrast, when a Chinese trade delegation came to Milan recently, 350 entrepreneurs turned out at two days' notice to listen to what they had to say. In spite of high-profile privatisations, and the very public debate about the virtues of equity investment, it is clear that for most Italian business people, "the market" is still the place where you sell your product.

IN THIS SURVEY

Editorial production: Jonathan Guthrie
Graphics: Bob Hutchson, Ranjit Dhillon

Institutional shareholding: by David Lane

Investment leaders are needed

Neither banks nor pension funds seem likely to give industry greater direction

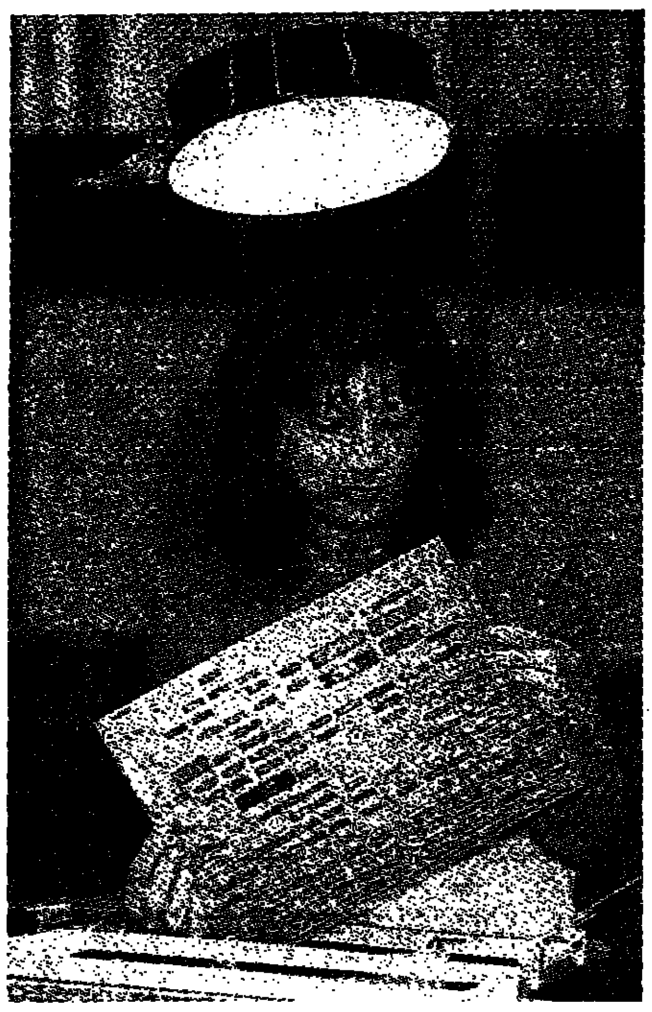
The Ferruzzi-Montedison group tumbled into a L31,000bn (£12bn) pit of debt in June 1993. It left about 150 Italian banks with claims of L21,000bn and 100 foreign credit institutions hoping for repayment of L6,000bn. At around L15,000bn the aggregate exposure of the ten largest Italian banks was equivalent to 21 per cent of their total capital.

In a debt-for-equity salvage operation put together by Mediobanca, Istituto Bancario San Paolo di Torino took on a 15.7 per cent stake in Ferruzzi Finanziaria, while Credito Italiano and Banca di Roma collected 11.7 per cent and 10 per cent respectively. Coincidentally the government issued a decree that opened the way for banks to take interests in industrial companies.

The decree superseded the 1936 banking law banning Italian banks from holding investments in industrial companies. It aligned Italy's regulatory system with the terms of the EU's Second Banking Directive. Italian banks have since been allowed to invest up to 15 per cent of their funds in non-financial shareholdings, with a limit of 3 per cent in a single investment. The overall and concentration limits for large banks are 50 and 6 per cent respectively, while for specialised institutions they are 60 and 15 per cent.

In announcing the break with the past, the Bank of Italy said: "Investment by banks in non-financial firms widens the range of corporate financing instruments and is intended to help strengthen the financial position and encourage listings on regulated markets of companies with good prospects of profitability and growth."

Operations such as the rescue of Ferruzzi will remain exceptional, the bank said. It would only permit debt-for-equity swaps involving non-financial companies where problems were temporary. When a bank takes an equity stake in this way the Bank of Italy



Italian employees will rely on private not state pensions Alan Harper

requires that it must lead to an improvement in corporate performance within a plan that foresees a return to profitability within five years.

Despite this, some observers think that salvage operations will be the most common way in which banks take equity stakes in industrial companies. "Credit recovery will be the reason for equity holdings rather than investment," says a leading Milan stockbroker. "Banks are incapable of managing equity portfolios. They do not have the right staff." The new rules permit freedoms that Italian banks are incapable of exploiting.

Nor will banks be long-term strategic investors. "Italian banks will not become German-style *hausbanks*. When banks take stakes in companies being floated they will be short term rather than strategic," comments Mr Paolo Azzoni of securities house

> The Bank of Italy will only allow swaps of debt for equity where issuers' problems are temporary

Gamba & Azzoni, a subsidiary of Paribas Capital Markets.

Mr Mario Sarcinelli, chairman of Banca Nazionale del Lavoro, asks: "Can our large and medium-sized banks take the place of the still-absent institutional investors as long term shareholders and shrewd supervisors of the results of industrial management? Leaving aside its low probability I do not believe that such an outcome is desirable."

Mr Sarcinelli considers that the German model produces benefits only where the banks take part in corporate planning. It requires them to define appropriate strategies even for large conglomerates operating in diversified markets. "It does not seem realistic to expect that this can happen in the short term," he comments.

Italy's big institutions do not have the resources to become mixed banks. Acquiring investments would merely increase

Mario Sarcinelli: banks unsuited

the risks they run. Mr Sarcinelli believes that the involuntary acquisition of shareholdings by banks through participation in rescues has confirmed his concerns about the ability of Italy's principal banks to formulate industrial strategies. "To each his own role," he says. "Recently transformed into joint stock corporations and subject to the scrutiny of investors as well as their own customers, Italian banks must, above all, show themselves to be able to match the best foreign competition in allocating resources and evaluating risks."

There are doubts about the likely demand for shares from Italy's growing pension funds. However Mr Attilio Ventura, chairman of the stock market council, is optimistic about their likely impact: "Their contribution to the market's demand side will certainly be considerable, bearing in mind the stock of financial assets that they will accumulate in a relatively brief period," says Mr Ventura.

There are already about 1,000 funds. The Bank of Italy and the public sector banks all offer occupational pensions to employees. Many funds are very small, some with just a handful of contributors. Some are not accounted for separately but are dealt with in the employers' accounts.

Pension funds' have new potential for growth as a result of this summer's reform of the state pension system. This will reduce state benefits and boost private pension schemes. Employer and employee contributions will merit tax incentives. Part of the annual accrual to employees' leaving indemnities will be directed into pension funds.

Decrees to implement the reform, covering matters like statutory conditions and investment policies, are expected soon. A supervisory commission will be established by the spring, when the new pension fund system will start in earnest. Private funds should get a boost from expected cuts to state pension provision.

The reform will boost government bonds and the fee income of fund managers. Pension funds are unlikely to be heavy buyers of equities. The Italian stock market is thin, opaque and gives outsiders short shrift.

Pension funds are likely to follow the example of life companies in investing little more than 3 per cent of their cash in equities. Mutual funds provide a more adventurous model. They devote just 15 per cent of their L125,000bn assets to Italian equities, 15 per cent to foreign equities and 47 per cent to Italian state securities.

If the government brings order to public sector accounts, then pension fund managers may have to reduce their holdings of public debt. Healthier public sector finances will cut interest rates and the need for continued rounds of funding. But until then treasury bills and certificates will swell pension funds' balance sheets.

Medium-term lenders: by Andrew Hill

Two banks with two networks of alliances

Mediobanca leads in restructurings while IMI pursues pre-eminence in the bond markets

In the world of investment banking, where experience is measured in decades, and sometimes in centuries, Mediobanca, the Milan merchant bank, is a youngster. It will celebrate the 50th anniversary of its foundation next year. Its main Italian rival – Istituto Mobiliare Italiano (IMI) – is only 15 years older.

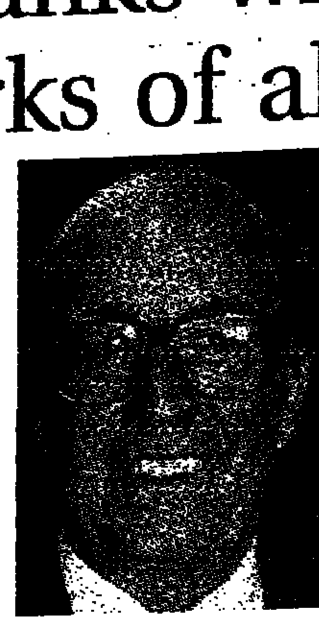
Until the beginning of this decade, Italian banking law prevented commercial banks from developing medium-term lending activities. But IMI and Mediobanca were exempted from this bar as "special credit institutions", charged after the war with an important role in rebuilding Italian industry. The two institutions have traditionally taken differing approaches to this task.

Mediobanca under the shrewd Mr Enrico Cuccia – now the bank's honorary chairman but still, at 88, its guiding light – chose to build close relationships, cemented by cross-shareholdings, with many of Italy's largest post-war industrial and financial companies. This group was headed by Fiat, the car maker, Pirelli, the manufacturer of cables and tyres, and Generali, the insurer.

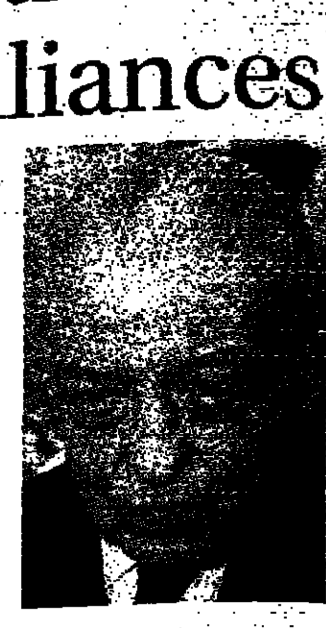
Mr Cuccia also cultivated a close relationship with Mediobanca's main banking shareholders, Banca Commerciale Italiana, Credito Italiano and Banca di Roma. Such clout has made Mediobanca the undisputed expert in corporate restructurings.

It has been the force behind many of the most ambitious and complex deals of recent years, from the rescue of the Ferruzzi-Montedison industrial group in 1993 to this month's record rights issue by Olivetti, the computer group.

IMI has always been more closely linked to its state and public-sector shareholders than



Luigi Arcuti, chairman of IMI



Enrico Cuccia: master strategist

Mediobanca, and lacks its banking network. Instead it has built up a strong position in the government bond market and the growing fund management sector. Recently it has more than matched Mediobanca in winning privatisation mandates. IMI is acting as joint global co-ordinator of the current sale of a minority stake in Eni, the energy and chemicals group, the largest state sell-off to date.

The structure of the two group's loan portfolios reflects

> IMI has more than matched its rival in winning sell-off mandates

their different priorities. Mediobanca's assets are centred on Italy's largest industrial groups.

When IMI was partially privatised last year 11 of its 20 largest borrowers were state or public authorities. And a higher proportion of IMI's loans are made to small and medium-sized companies through its regional branches.

The treasury – IMI's old boss – now wants to place IMI at the centre of an alternative investment banking alliance. When it sold most of its remaining shares in IMI at the beginning of July it created a core of shareholders headed by three of Italy's largest banks – Istituto Bancario San Paolo di Torino, Cariplo of Milan, and Monte dei Paschi di Siena – which now owns nearly 30 per cent of the group. The same alliance forms the core of investors in Ina, an insurer formerly owned by the state.

The Italian authorities hope that the trio - all of which are rationalising their medium-term credit strategies - will co-operate with each other and with IMI in order to win back from Mediobanca a larger share of the domestic corporate finance market.

It is unclear how useful such a rivalry will prove either for the banks or the Italian industrial system. The reinforcement of domestic alliances looks out of date given that Italian banks now face stronger international competition. Analysts also doubt whether acting as a direct investor is the best way for an Italian bank to further its aims and those of the companies in which it invests. But as Mr Vittorio Serafino, deputy director general of IMI, points out "The alternative system of big public companies can only work where there are strong institutional investors." These have yet to develop in Italy.

New listings: by Andrew Hill

The equity habit spreads

A record number of companies defied a decline in market indices to bring new listings

This has been both a very bad and a very good year for the Italian stock market. It has been weighed down by political uncertainty and blighted by the murky manoeuvrings of Italy's traditional business dynasties, most notably in a much-criticised attempt to merge Gemina, the investment company they control, with the holding company, Ferruzzi Finanziaria. This project has now been shelved indefinitely.

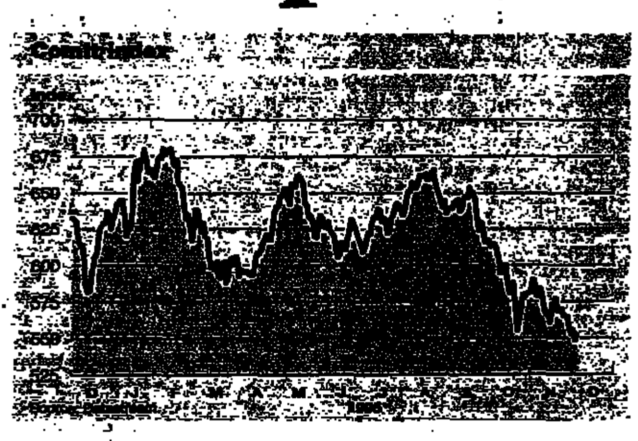
From a peak in mid-February the Comit index of Italian equities has slipped more than 15 per cent. Foreign investors have deserted the exchange despite the authorities' efforts to modernise it.

But 1995 has also been the year in which Italy's dynamic medium-sized companies rediscovered the stock market as a source of funds with which to continue their expansions. It is set to be one of the best years since the late 1980s for the listing of new companies. In 1993 only four new companies listed, one of which was foreign. In 1994 eight came to the market, all from the financial sector. This year about a dozen are set to complete listings.

These include three banks, Telecom Italia Mobile, the mobile phone company demerged from its state-controlled parent, and Eni, the national oil, gas and chemicals group. Shares in the latter were floated last month in Italy's biggest ever sale of state assets.

What has really given heart to promoters of Italy's stunted equity market is the number of medium-sized, non-financial companies, often family-controlled, which have chosen the stock market as the best way of financing future expansion.

For example Bulgari, a luxury goods company, came to the market in July. La Doria, which manufactures fruit and vegetable products (see profile below), joined a select band of quoted southern Italian companies last month. Other companies that have raised cash on the market are IMA, a packaging machinery firm and Brembo, a brake components manufacturer. Several industrial and commercial companies are waiting in the wings for listings next year, when the government also expects to sell shares in Enel, the electricity company, and Stet, a telecoms holding company that already has a listing.



The steady flow of medium-sized companies to the market is a fillip for the Italian stock exchange council, the Italian employers' federation Confindustria and ABI, the banking association. The three bodies launched a special initiative this year to promote the stock market directly to entrepreneurs around Italy. ABI backs the formation of a second market, to be known as Metim, which will have less stringent listing requirements than the main market and be aimed particularly at smaller companies.

The organisers of the stock exchange promotion cannot yet claim direct credit for the increase in quoted companies. The initiative only began in July and most of the companies that have recently gained listings had already been considering a flotation.

But the trend shows that expensive loan finance is no longer the first choice of a growing number of entrepreneurs. Mr Attilio Ventura, who heads the stock exchange council, is clear that many listings have been driven by the need to find new sources of risk capital.

Demand from investors is essential to a successful flotation. The disappointing performance of the Italian market, and in particular the lack of interest shown by foreign institutions, might deter potential issuers. But all the medium-sized companies' share offers have been oversubscribed, often with strong demand from foreign buyers.

Mr Ventura explains that the newcomers "are fast-growth companies, well-known internationally". This gives them an immediate advantage over companies that are heavily reliant on domestic turnover. Many have sought funds specifically to pay for expansion overseas. "These are seen as growing international companies which just happen to be traded in Italy," comments one analyst.

These medium-sized companies are attractive to international investors tired of trying to understand the complex corporate structures of Italy's traditional business dynasties. Smaller, family-controlled companies, which are obliged to file clearly-audited accounts in the run-up to flotation, are easier to grasp. They provide investors with growing profits that can be accessed directly rather than at several removes through a cascade of holding companies.

Many of the companies which have floated in the last 12 months were already used to the involvement of an outside investor. This taught them to respond to a discipline other than that provided by managers drawn from a founding family. In the longer term stock market listing may also provide an uncontroversial escape route for family members who no longer want to own shares in the company.

Continued family control is not in itself a disadvantage. Indeed according to some bankers the involvement of a strong majority shareholder is an advantage, provided the company's management has proven expertise.

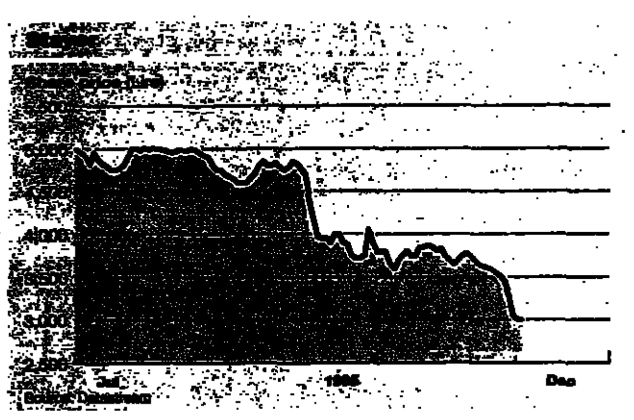
It may be no coincidence that the only newly-quoted company to suffer in the aftermath of quotation has been Stayer, a Ferrara-based manufacturer of electric tools for gardening, do-it-yourself, and carpentry which floated a majority stake in July.

Stayer's share offer was oversubscribed. But once trading began its shares fell sharply. The institutional investors who used to own a majority share in the company blame the fall partly on the lack of a strong core shareholder. Big shareholders in the concern have just formed a pact, agreeing not to sell their shares before the end of 1996 in the hope of reassuring other investors about their commitment to the business.

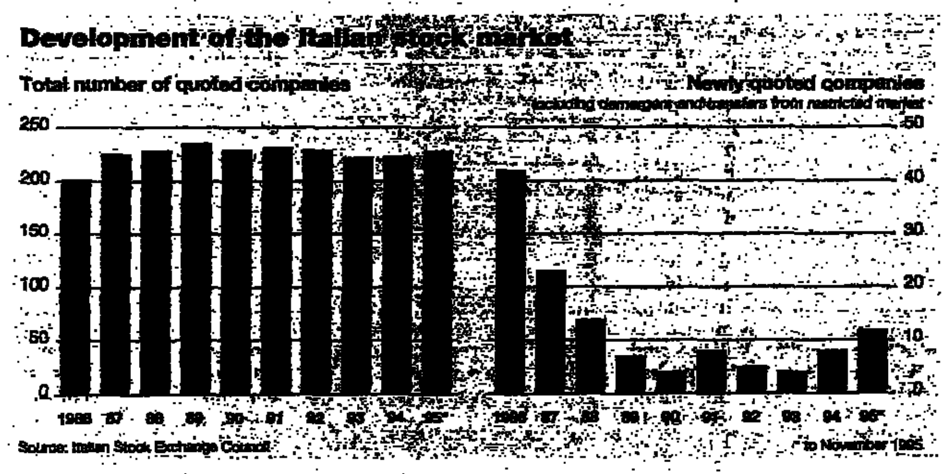
It is unclear whether the arrival of a dozen new quoted companies is the beginning of a growing trend for stock market listing.

Tax incentives to encourage smaller firms to join the stock exchange will expire at the end of 1997. But promoters of the market, together with venture capitalists and merchant banks, hope that enthusiasm for flotations will continue to snowball, bringing together capital-hungry entrepreneurs and outside investors.

Buoyant but depressed: traders on the Milan stock exchange have focused on flotations as the index has fallen Trevor Humphries



Attilio Ventura: listings from fast-growing concerns Caravacci/Photo Dossier



PROFILE

The earthquake survivor

In 1953 the Ferraioli family founded La Doria, a southern Italian manufacturer of fruit and vegetable products. Although they have controlled it ever since and are likely to go on doing so there have been changes in the company's ownership structure since then. These culminated at the end of last month with the stock market flotation of the business.

Antonio Ferraioli, son of the founder and managing director of the company, says the decision to reduce the family's 100 per cent stake was not easy. "But a company like ours, which has enjoyed strong growth in the last years and wants to grow more has to go in this direction sooner or later," he adds.

Like many of the companies coming to the Italian equity market La Doria already had experience of outside involvement in management. A public-sector merchant bank, GEPI, owned a 49 per cent stake from 1986 to 1990.

La Doria has a strong international position. More than half of its L170bn (£69m) annual turnover in tomato-based products, fruit juices, fruit salads and canned vegetables, comes from exports. Some 40 per cent of these finish in the UK.

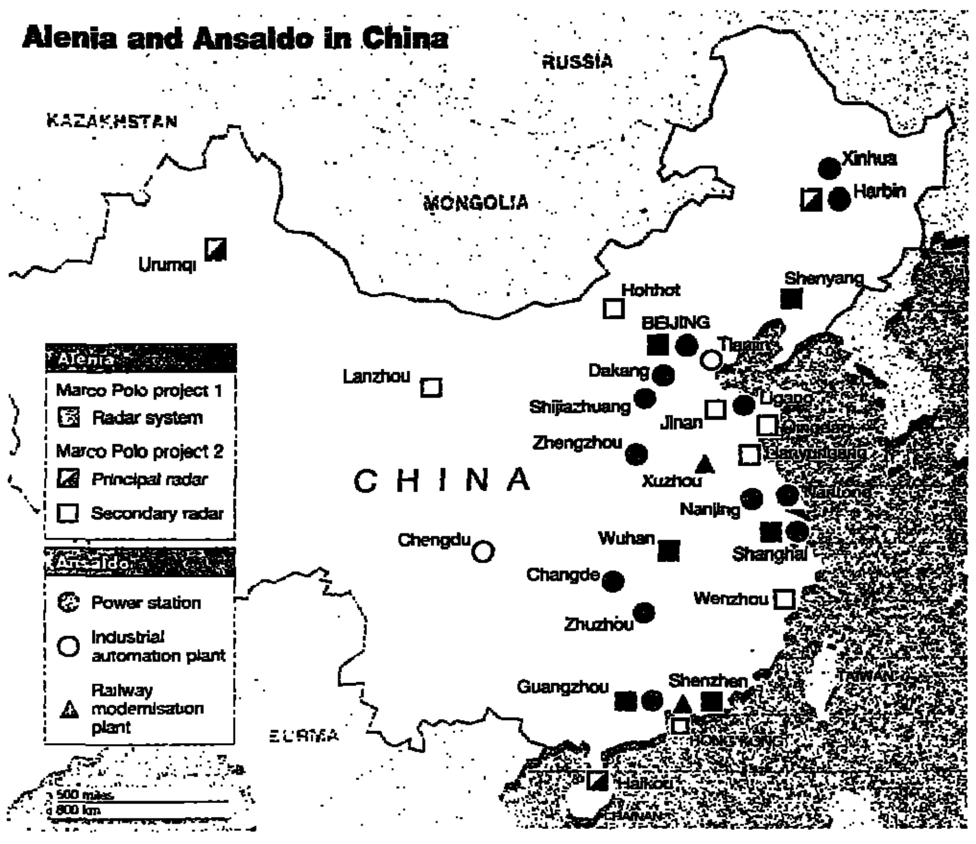
La Doria is probably the only new stock market arrival whose growth has involved a devastating natural disaster. In 1980 an earthquake hit the area around Salerno, where La Doria has its only production plant. The earthquake damage combined with the financial impact of previous expansion and a general recession in food processing to force La Doria into receivership.

After only two years La Doria was back on its feet. The founders' sons - Antonio and Andrea - took over the firm's management in 1984. They bought back GEPI's minority stake six years later. Last year La Doria reported net income of L8.6bn, against L6.6bn in 1993. Analysts are forecasting that it will make L14.5bn of net profit in 1995, when turnover should top L200bn for the first time. GEPI's period of involvement helped La Doria prepare for stock market flotation. As Antonio Ferraioli puts it: "Having a relationship with an outside merchant bank helps to create a mind-set for a certain style of management." The company received corporate finance advice on the listing from Pasfin, the merchant banking arm of Sopaf, a financial and venture capital group.

The Ferraioli family decided to retain a 70 per cent stake in La Doria, by selling part of their shareholding and creating new shares through a capital increase. The offer was heavily oversubscribed, raising L86bn for expansion.

The shares rose to a premium against the offer price in the first days of trading last month. This contrasted with the government's much larger sale of shares in Eni, the oil, gas and chemicals group. Eni stock began trading a day later and remained stubbornly at the offer price, or just below it. This shows that, for the time being, small is still beautiful on the Milan market.

Andrew Hill



■ **An Italian company in China:** by Robert Graham

Exporter chases Asian profits

Finmeccanica aims to expand in four areas in this fast-growing economy

Italy has traditionally lacked strong commercial links with China. Exports to the Chinese market account for only 1.5 per cent of Italy's total overseas sales.

But the Chinese market has become so large and its potential so great that it cannot be ignored. This is especially true for the diversified high-technology group Finmeccanica. The concern, which is majority owned by state holding company IRI, has sales of $8bn.

With its broad range of products – from electronic equipment, industrial automation processes and power generation plants to transport systems, radar and aircraft – Finmeccanica is ideally placed to compete in China even though the emerging economies of the Asian region as a whole account for only 13 per cent of its exports.

Through Ansaldo, a power generation specialist, Finmecccanica has been present in China since 1974. Ansaldo has helped install 3,500MW of power in the country through contracts worth $1.3bn. Finmeccanica's presence broadened in 1989 when Alenia, the group's aerospace arm, won the first of two big contracts to install a network of air traffic management centres.

The group has only begun to adopt a unified approach to the Chinese market in the past two years. It is concentrating on helping meet the country's fast-growing infrastructural needs. It aims to establish a strong presence in four areas - the energy sector, transportation, automation, and the defence business.

Individual companies promote themselves on their own sales and manufacturing agendas. Finmeccanica offers itself to potential clients as a group of companies with advantageous links between them. This is particularly the case in the field of defence. Its approach could change if IRI and the Italian treasury decide to reorganise Finmeccanica, with the defence side kept by the public sector and the other parts of the group privatised. Management consultants will complete a study on the pros and cons of this break-up by the end of the year.

Finmeccanica is targeting the Chinese energy sector which is expanding fast, through its subsidiary Ansaldo, a gas turbine manufacturer. Ansaldo wants to increase penetration of this sector through bids to supply turbines and generators for two coal-fired power plants with a total capacity of 700MW. It is also considering bidding to supply six other large power plants and discussing several "build, own and operate" projects both as a contractor and a financial partner. The Chinese believe this method of project development could help accelerate growth in electricity generation capacity.

To strengthen its presence Ansaldo is discussing joint ventures with potential local partners. It is holding talks with three Chinese concerns which want to use its proprietary technologies: in Wuhan (for small and medium-sized turbines); in Hangzhou (for boilers, condensers and thermomechancial components); and Chonqing (for hydro-electric generators).

Ansaldo may participate in the construction of two small-scale nuclear plants too. Agreements have already been signed with the Institute of Nuclear Technology in Beijing and the Chinese Academy of Science for joint research activities.

> Finding the right financial guarantees is difficult for companies active in China

The second prong of Finmeccanica's strategy is directed at transport. It plans to expand in the market for air traffic management and stake a claim in mass transit systems. Under a project labelled "Marco Polo" Alenia is supplying the Chinese civil aviation authority with 47 radar and air traffic control systems. The market in these products over the five years to the end of the century is expected to be worth $1bn. Alenia has also established a direct manufacturing presence by teaming up with the Chinese group Ruilian and a Hong Kong partner to produce electronics components.

Ansaldo's transport division is meanwhile trying to break into the mass transit market. In July 1993 it tendered to provide 174 vehicles worth $60m for the Peking metro. But the bidding process has been postponed six times. In August the contract was withdrawn, perhaps for political reasons.

Finmeccanica's third area of activity is selling automation technology made by US-based subsidiary Elsag-Bailey. It hopes that banks and utilities will use Elsag-Bailey's postal automation and electronic mail systems to reduce the high cost and low speed of communicating within China.

This year Finmeccanica has begun to develop the fourth prong of its strategy by moving into China's defence business. It has struck a wide-ranging agreement with Norinco, a major conglomerate controlled by the Chinese military. The agreement, signed in October, is aimed at identifying ways Finmeccanica can collaborate with 156 industrial establishments and 30 research centres in the field of industrial automation processes, electronic systems and the environment. The group has important waste management technology through its Danish subsidiary, Volund. Finmeccanica is meanwhile eyeing contracts to refit and upgrade Chinese weaponry acquired in part from the former Soviet Union.

Finmeccanica expects that the transfer in technology with China will be in two directions. For example Chinese researchers are thought to have developed interesting optical scanning technology that could be useful to Elsag-Bailey in future.

Finmeccanica opened an office in Hong Kong this year to help develop opportunities and gain intelligence on China and other countries in the Far East. Identifying potential partners and finding financial backing is an important part of this. Financing projects in China is complex and difficult. The country's banking system is poorly developed and the legal system appears to discriminate in favour of local companies.

All China's main western trading partners are concerned about the quality of financial guarantees and the regulatory framework. SACE, the Italian credit guarantee organisation, has run up a L3,000bn (£1.2bn) exposure to China and is now cautious about extending further cover. The organisation has recognised only four Chinese banks for handling project finance. China's central bank does not formally guarantee debts even for these banks.

Finmeccanica for its part tries to link itself wherever possible to World Bank-funded projects or those backed by other multilateral financial institutions like the Asian Development Bank.

■ **Design:** by Jennifer Grego

The fashion victors

Companies such as Fiat and Alessi have made the country famous for its design quality

Italian design may finally gain government recognition after having been an unregulated success story for almost 40 years.

A meeting recently took place in Rome between representatives of the design industry, led by Professor Augusto Morello, chairman of the Association for Industrial Design in Milan, and of CNEL, the national research design council, to establish criteria for official recognition of design studios. Their findings should be sanctioned by law next year.

The industry took off in the the mid 1950s with the publication by the magazine Domus of a "Manifesto for Industrial Design". Since then a profession staffed mainly by architects has been supported by a group of enlightened industrialists, starting with the late Mr Adriano Olivetti. But most designers coming into the business today are no longer architects and support from industrialists cannot be counted on.

There are four state-funded design schools: in Rome, Faenza, Urbino, and Florence. Graduates aim to join design-conscious employers like Fiat, Piaggio or Merloni.

Professor Morello claims that Italy's traditional geographical division into separate industrial districts is an important source of strength. Propinquity breeds strong competitiveness.

Another factor stimulating the design industry is its willingness to absorb foreign talent. It is much easier for a foreigner to work as a designer in Italy than for Italian designers to work abroad. This is evident in fashion design, where the Texan Tom Ford has injected much-needed new vigour into the luxury leather goods manufacturer Gucci.

The Fiat group, a leader in industrial design, realised early on that a car was also a personal statement. It commissions designs from its own studios, of which there are three, serving Fiat, Lancia and Alfa Romeo. It also uses several outside studios. The designs for the new Bravo and Brava cars were produced by Fiat's own designers. The vehicles have been jointly nominated for the 1996 Car of the Year awards.

Almost all big car styling studios are based in Turin, because Fiat has its headquarters there. Nine out of ten of the cars produced worldwide were designed in that city. The Italian car industry grew from a long tradition of carriage-making and metal-working, the latter centred on making suits of armour.

While Fiat has set high standards in car styling, Alessi has had similar success in designing household utensils. Now in the third generation of family control, Alessi was established in Omegna on Lake Aorta in the province of Novara. Mr Carlo Alessi, the founder's son, first set the company on the path of design innovation, commissioning work from architects like Mr Ettore Sottsass, Mr Achille Castiglioni, Mr Aldo Rossi, Mr Richard Sapper and Mr Alessandro Medini. Under Carlo's son, Alberto, the company now has a turnover of L130bn (£53m) and exports its products to over 70 countries, led by Germany and Austria.

Alessi products - including a true design icon, an octopus-shaped citrus squeezer, the Juicy-Salif - have reached museums as well as kitchen shelves. The company is an inventive transformer of domestic utensils into art-works. It outraged the local parish priest of Omegna with its phallic Firebird gas-lighter, of which it sells about 50,000 worldwide every year.

The business has a less liberated attitude to employing women in senior management roles. The two current joint managing directors, Mr Alberto Alessi and his brother Michele, have decided that yet again, in the fourth generation of family control, their womenfolk will not be allowed to work for the firm.

Their enthusiasm for new ventures shows no sign of abating. They recently branched out into clocks and even saxophones. Mr Alessandro Medini produced the design for the musical instruments; Mr Alberto Alessi claims it is the most innovative on the market. The idea of diversifying into saxophones was partly inspired by altruistic motives. Alessi aims to boost an ailing traditional industry in Quarna, a town on the hillsides of Lake Aorta. Mr Alessi says that the instrument makers there must concentrate on quality and "not be scared of the Japanese".

■ **The mezzogiorno:** by David Lane

South is poor relation to the north

Patronage politics and state subsidies have hurt the region's enterprise and self-reliance

Until 1926 Banco di Napoli and Banco di Sicilia could print their own money. Bankers in Palermo and Naples who wish these two large public-sector southern banks could do so again are not just nostalgic dreamers. The past two years have left the banks desperately short of cash.

In a year when Italian banks' results have been making news for the wrong reasons, southern banks have outdone the northerners. After shocking the markets this spring by reporting a loss of almost L1,000bn (£407m) for 1994, Banco di Napoli revised the figure to a record L1,147bn deficit. The Neapolitan bank has continued to explore the frontiers of loss-making, announcing a deficit of L1,560bn at the end of June. Sicily's Banco de Sicilia reported losses of L658bn for 1994 following a deficit of L849bn in 1993.

Banco di Sicilia broke even again in the first half of this year. It has been quicker than Banco di Napoli in tackling its problems. Last year it closed branches in Los Angeles, Lyons and Munich and representative offices in Chicago and Singapore. The bank changed its top management and cut its payroll.

Banco di Napoli only started to deal with its difficulties this year, after appointing new senior managers. A recovery plan, not yet endorsed, proposes retrenchment abroad and cuts to the 810-branch Italian network. The bank is measuring the profitability of branches to identify loss-making and low-earning parts of the network for disposal.

Both banks want to pull out of loss-making activities, cut costs and scale down balance sheets. Their massive losses are the price of poorly-controlled expansion, affecting loan books as much as branch networks. The two banks were the fiefdoms of local political bosses. Loan quality fell due to political pressures on the banks' previous managements.

Banco di Napoli has just established an independent credit control service, so lending should be of higher quality in future. Most of its losses over the past two years arise from cleaning out loan books. The Neapolitan bank classified L1,434bn of its loans as doubtful in June, a six-fold increase on June 1994.

At the end of last year Banco di Sicilia had doubtful loans totalling L3,000bn on its books, an increase of L243bn over the previous year. This means that 11.7 per cent of total loans were doubtful.

Low quality lending is only part of a generalised banking crisis in the south of which Banco di Napoli and Banco di Sicilia are the clearest examples. Bank of Italy figures show that *sofferenze* (non-performing loans which banks have begun legal action to recover) amounted to 19 per cent of total lending in the south at the end of last year. By comparison, the figure for centre-north Italy was 7 per cent.

Lending in Italy's south, or *mezzogiorno*, carries much higher risks than elsewhere as banks' accounts show. It is also reflected in the interest rates that southern customers pay on loans. Last year the average interest rate for borrowers in centre-north Italy was 10 per cent, compared with 13 per cent in the south. Almost 28 per cent of southern businesses paid interest rates above 15.5 per cent, against 18 per cent of companies in the centre-north. Only 5.4 per cent of southern firms, against 13.6 per cent in the centre-north, paid less than 9.5 per cent on their borrowings.

> Banks who lend capital to businesses in the south face higher risks of default

The figures are grim, whether seen from the banker's side of the counter or the customer's. The south lacks the entrepreneurial spirit that has brought the north success. But instead of helping to solve the problems that southern businesses face, inefficient and poorly-managed southern banks have been their partners in exploiting subsidies from welfare and development funds. Mr Vincenzo Desario, the Bank of Italy's director general, recently noted that southern banks do not offer any of the support services supplied by northern counterparts, like business valuation, and legal and tax consultancy.

Banks and their customers in the *mezzogiorno* have benefited only marginally from Italy's economic upturn. GDP grew less than 1 per cent last year compared with 2.6 per cent in the centre-north. Unemployment in the south was 20 per cent, in contrast to 8.4 per cent in the centre-north. More than 50 per cent of young people aged between 15 and 24 are unemployed against 23 per cent further north. Southerners' household consumption is 69 per cent of the figure for northerners.

Mr Desario pointed to the fragility of manufacturing industry in the *mezzogiorno*, the weakness of small businesses and heavy industry's narrow base there. The region's industrial and financial fabric was already thin before a recent crisis in the construction industry. This arose as a result of a brake on public works following corruption scandals. Straitened budgets and a block on regional incentives have caused severe damage too.

The southern question has recently moved higher on the agendas of politicians, industrialists, bankers and trade unionists.

The industrialists' confederation Confindustria believes that four basic conditions must be satisfied for the southern economy to start closing the gap with the rest of Italy. Confindustria urges banks to new efforts in supporting industrialisation in the *mezzogiorno* and calls for greater efficiency in the public administration and in implementing new means of intervention. In its fourth point it calls on trade unions to show "willingness to agree an unequivocal framework of flexible conditions and wages to offer to Italian and foreign businesses disposed to invest in the *mezzogiorno*."

Yet why should business move south? A Bank of Italy study in 1993 revealed dissatisfaction with the quantity and quality of infrastructure and services in the region. Mr Desario noted that the gap between north and south is particularly large in hospital services, nursery schools, policing and public administration. And the banking system does not score highly.

Both business and banks in the south are trapped in a blind alley. Huge public assistance through grants and loans promised much but did not

Continued on facing page

■ **Exports:** by Andrew Hill

Weak lira powers surge

Exporters must forge international links to sustain growth as the lira recovers

Mr Jacques Chirac, fresh from being elected president of France, caused a diplomatic incident earlier this year when he picked on the devaluation of the lira and the consequent surge in Italian exports as one reason for the problems of French industry.

The platform for his attack was new – the Cannes summit of European leaders. But the accusation itself was an old one. Italy's neighbours have complained about rampant Italian exports ever since the lira left the exchange rate mechanism of the European Monetary System in 1992.

The statistical evidence supports their concerns. Between 1988 and 1992 Italy's trade deficit rose from L12,675bn (£2bn) to L17,000bn. But in 1993 it was dramatically transformed into a surplus of L33,223bn. It has been growing ever since. In the first eight months of this year the surplus grew to L28,689bn against just under L25,000bn in the same period of the previous year. The surplus with other EU countries jumped from L9,000bn to L9,837bn.

"The impact on export volumes was very great, and on the values exported, which allowed us to recover the profit margin lost between 1988 and 1992. People were exporting then, but at lower margins," says Professor Fabrizio Onida, who heads ICE, the Italian foreign trade commission.

Beneficiaries of the surge in exports include sectors where Italy has always been strong, such as machine tools, agricultural machinery, clothing and textiles. The automotive and transport sector – led by Italy's dominant manufacturer, Fiat – has also returned to a surplus in the last three years. Fiat has also done well in its home market where it has reinforced its leadership.

Italian companies say that the devaluation has had negative as well as positive effects. Italy is fighting to control inflation, now running at an annual rate of 6 per cent. So interest rates remain high. Italian-based companies have suffered from having to pay more for raw materials. Pasta manufacturer Barilla, for example, is a strong exporter but has to buy its raw materials at European agricultural prices using the "green" lira and back its export strategy with strong publicity abroad, often paid for in stronger currencies.

Defenders of the Italian system say that there are structural reasons for Italy's strong exports. ICE points out that although the number of new exporters is growing rapidly, small and medium-sized companies, which make up a larger part of the Italian industrial economy than in other European countries, have traditionally been export-oriented.

Many businesses were pushed into seeking out new markets when the internal Italian market began to suffer from recession. There could be as many as 100,000 Italian exporters, compared with only 25,000 or 30,000 in France. To encourage this trend, SACE, Italy's export credit insurer, has recently introduced a fast, cheap procedure for small and medium-sized businesses to get export credit insurance.

The small size of Italian companies has allowed them to respond with greater flexibility to rapid changes in world demand. Analysts single out the clothing industry as an example. It used to work to a strict two-season cycle – autumn to winter and spring to summer. Recently US wholesalers and retailers, many of whom use Italian suppliers, have switched to four-week selling patterns. "This means you can't programme promotion in advance; you have to be able to produce according to the market trends which show up during the season," explains one analyst. Italian textile manufacturers, supported by a network of small specialist sub-contractors, are ideally placed to work to the new, more demanding rhythms of the world economy.

Italian exporters have been quick to move into emerging markets (see report opposite) and away from markets where demand is flagging. Mr Francesco Pittore, head of SACE's research department, says there has been a marked decline in demand for export credit insurance for exports to Africa, especially outside the more stable zone of South African influence. But there has been an increase in activity in the Middle East, Asia and Latin America.

Like other export credit insurers SACE has had to change the way it analyses individual export and investment projects. This is due to the near-disappearance of sovereign guarantees from the governments of emerging economies. "Previously we only evaluated the country risk. When you have a sovereign guarantee what happens to the project is almost secondary. But when this commitment from the state does not exist the project has to be looked at very closely," says Mr Pittore.

Project financing is one way Italy can consolidate the gains it has made in export markets as the currency strengthens. The lira now seems to have stabilised at around L1,120 to the D-Mark, compared with its weakest point in March of L1,274. This is probably still too high for Italy's competitors to countenance a return by the currency to the ERM. But clearly the ground rules for exporters are changing again.

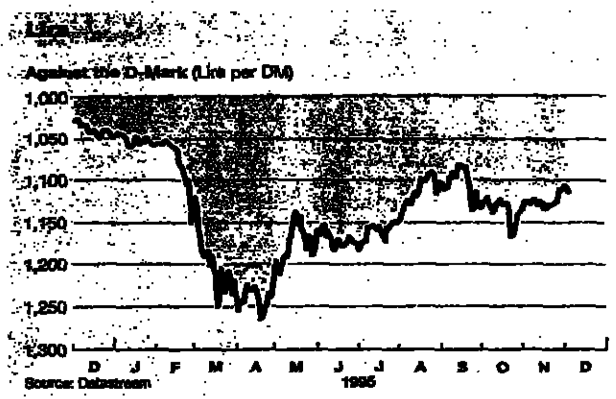
Professor Onida of ICE believes that Italian companies must establish distribution networks, systems for servicing their foreign clients, joint ventures and production facilities outside Italy. "If this strategy is not put in place, then the impact of devaluation will wear off quickly," he says.

Many companies have already done what he suggests. In China, for example, Italian companies are second only to German groups as joint venture partners. Giovanni Crespi, a manufacturer of foam and synthetic materials for clothing, footwear and household use, exports about 40 per cent of its Italian production. It also has operations on the ground in four foreign countries.

The question is whether Crespi's counterparts in other sectors are prepared to take the same bold steps.

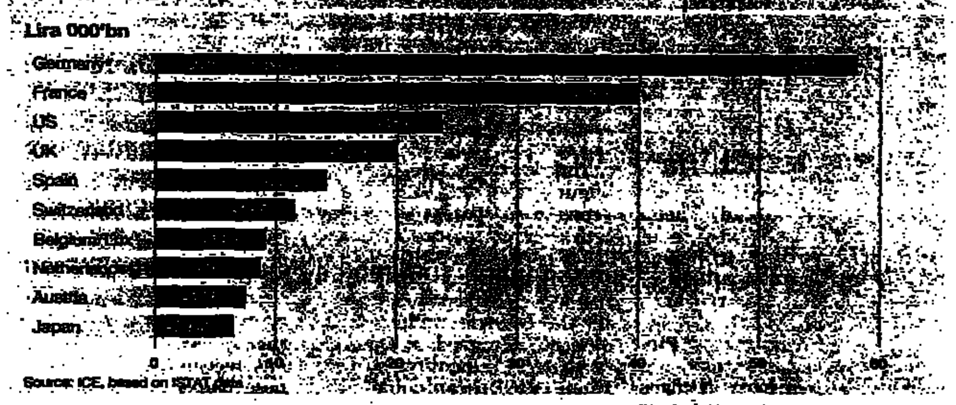
Full sale: containers await shipment at Genoa FT photo

Lira



Source: Datastream

Italian exports 1994



Source: ICE, based on ISTAT data

■ **Machine tool makers:** by David Lane

Bouncing back from recession in good health

Increasing domestic sales are compensating for declining export volume

Italy's machine tool makers will close their books on an excellent year at the end of December. UCIMU-Sistemi per Produrre (USP), the sector's trade association, expects that production will have risen 12.8 per cent in real terms, bettering the 10.5 per cent increase 1994 registered over 1993.

Even though production levels have not recovered fully, the sector has turned the page on the recession that caused a 43 per cent drop in production between 1990 and 1993. Sales at home have been the principal reason, with deliveries to Italian customers expected to soar by almost a third in real terms this year.

Two factors have helped the machine tool makers in their domestic market. The first was a plant rationalisation followed by an expansion of capacity. This was prompted by an economic upturn that buoyed production by mechanical engineering companies – output of capital goods was 7.7 per cent higher in 1994 than in 1993.

> The industry's forte is making customised machines

The second was the Tremonti Decree, a law which encouraged Italian manufacturers to retool. Named after the finance minister in last year's rightwing coalition government, it came into effect in July 1994. It gave manufacturers exemption from corporate income tax for a substantial part of their investment expenditure in 1994 and 1995.

Export growth has been modest. The increase in foreign sales volume slowed from 12.4 per cent in 1993 to 3.4 per cent last year. In late spring USP forecast it would increase to 3.5 per cent this year. The summer's trade figures suggest that growth could be a little higher. A strong rise in imports during the past two years has eroded Italy's trade surplus in machine tools. Export sales, particularly to Germany and France, remain important, absorbing more than half of production.

"Italy is strong in customised machine tools, but is weak where high, mass production volumes are involved," says Mr Ezio Colombo, chairman of USP. The association's membership, centred on Lombardy with concentrations in Emilia Romagna and Veneto, reflects this.

Most of Italy's machine tool makers are small or medium-sized family concerns. Almost two-thirds of them had turnover below L5bn (£2m) in 1994. Less than 1 per cent recorded turnover above L50bn. Three-quarters employ fewer than 50 people. About 100 companies produce components while 450 make machines, robots and systems. The industry is not structured for large production runs and economies of scale: small size and flexibility are its guiding principles.

It seems to be a successful formula. The sector's order books grew by about 25 per cent in the first nine months of the year, thanks to increases of 39 per cent in the home market and 8 per cent in exports. As this year draws to an end Italy's machine tool makers can boast order books that assure production for almost 8 months. This situation has some risks. Lengthening order books increase delivery times and the danger that customers will look elsewhere.

The lira's weakness creates another risk. Last year's steep depreciation gave machine tool makers a sharp competitive edge in export markets. This advantage has now been blunted. "We were suddenly more competitive when the lira plummeted, but the sector is very international and makers have since faced much higher costs in purchasing components and materials," explains Mr Colombo.

Finding the right workers can be a problem for the members of USP. Shortages of skilled labour have become evident in the regions where Italy's machine tool makers are concentrated. A new contract for engineering workers has added to costs, already suffering upward pressure due to the shortage of skilled workers. USP figures show that the labour costs of British and Spanish companies are 25 per cent lower than those of Italian competitors.

After falling from 31,500 in 1991 to 27,300 last year, employment in the sector will have risen to over 28,000 during this year. It is expected to rise even higher in 1996. "We are forecasting growth in production volume of around 10 per cent in both 1996 and 1997," says Mr Colombo. Italy's machine tool sector has bounced back from the recession in rude good health.

Continued from facing page

close the north-south gap. Nevertheless there are calls to turn back the clock, not least in connection with the two large banks. Many southerners and some politicians in Rome want the treasury to bale out Banco di Napoli with fresh capital, along the lines of Banco di Sicilia's partial recapitalisation.

The Neapolitan bank needs about L3 trillion to put its ratios in order. Many consider that giving it treasury or regional funds would represent a reversion to the bankrupt policy of state largesse. Shock therapy is needed instead, they say. The loan put together at the end of November through which the Treasury and 11 large Italian banks will provide L2,500bn at market rates is a stopgap measure until a longer-term solution to Banco de Napoli's problems is found.

The outlook for banks and businesses in the south is bleak. Calling on the banks to do more for southern industry is like asking one sinking ship to pass a line to another.

■ **TAV project:** by David Lane

Fast train may run late

A venture to set up a high speed train line must overcome huge obstacles to achieve its targets

Given Italy's poor track record in infrastructural projects, the average gambler would bet against the high speed train venture, or *treno alta velocita* (TAV), being completed on time. Progress since construction sites opened 18 months ago has been too slow to improve the odds for a L25,600bn (£10.4bn) project whose first high speed service is due to run between Rome and Naples on April 8 1999.

A 220km stretch of track from the Italian capital to Naples will be the most southerly section of a network that will start in Turin in the north-west. The 239km section from Rome to Florence is already operational and only needs better signalling to carry the TAV. The three northern sections of line, from Turin to Milan (127km), Milan to Bologna (199km) and Bologna to Florence (77km), require new construction.

The TAV should significantly reduce journey times. The trip from Milan to Rome will take 2 hours and 50 minutes compared with 4 hours today. The 1 hour and 30 minute trip from Turin to Milan should be halved and 45 minutes cut from the 1 hour and 50 minutes it takes to travel from Rome to Naples.

Italians who saw the slow pace with which the Rome-to-Florence railway line was built during the 1970s and 1980s and the leisurely rate at which Rome's underground railway advanced find it hard to believe that the complete Turin-to-Naples network will be operational by 2001.

"Ensuring that the project is completed on time and within budget are challenges," acknowledges Mr Ercole Incalza, managing director of TAV, the joint stock corporation undertaking the project. He believes the company is overcoming planning uncertainties by conducting roundtable consultations with all the local authorities concerned before starting to build sections of line.

Over 60 communes took part in meetings on the Rome-to-Naples section. The discussions lasted for 13 months and were concluded at the end of 1993. Consultations for the Florence-to-Bologna line were wrapped up in July. Mr Incalza hopes to reach agreement with the local authorities affected by the Milan-to-Bologna leg early next year.

"We expect that all expropriations of land needed between Turin and Naples will be completed by the end of 1996. More than 90 per cent of the land for the Rome-to-Naples line has already been acquired, and there should be no problems for the Florence-to-Bologna section which is mainly tunnel," says Mr Incalza.

In a report on the Rome-to-Naples section issued last month TAV officials said that decisions on the 15km entering Rome and the final 6km into Naples are critical. Five alternatives are under consideration in Florence, where TAV hopes to agree a project by June. "The line and engineering of the high speed track through Bologna has at last been settled," says Mr Incalza, noting that lack of progress on a junction at Modena is a serious problem.

Flying Italian: when operational the TAV will slash journey times

Local authorities and pressure groups see the high speed train as both a threat to the environment and an opportunity to obtain help to improve local infrastructure. The TAV project has tried to allay public concern by reducing the visual and auditory pollution caused by the work. Archaeological monitoring, seen as a potential obstacle to completing work on time, is in hand. It is using sweetener payments to local transport systems to convince communal authorities that the TAV is worth accepting.

The project's capacity to provide employment buys it some popularity, albeit at a national or regional level rather than locally, where its effects on labour markets may be disruptive. The TAV company estimates it will create almost 86,000 jobs, 49,000 of which will be in construction. This is why the TAV has enjoyed support from all five governments in office since July 1991, when TAV was established.

The size of the project combined with Italy's notoriety for snail's pace public administration means that Italians are sceptical about the TAV company's ability to meet the time and cost challenges.

Winning local support and getting necessary authorisations are essential if the project is to be completed on time and within budget. Mr Incalza believes that the use of general contractors, appointed on fixed-price contracts with penalties for late completion, provides a crucial guarantee that costs will not escalate and that revenues will start to flow in spring 1999.

Ercole Incalza: getting planning approval is vitally important

The TAV company will find it difficult to hide slippages or cost over-runs. Its equity is held by 29 shareholders, which subjects its accounts to the spotlight of market scrutiny. Ferrovie dello Stato, the Italian state railway, is the largest, with a 43 per cent stake. The concern also has six foreign shareholders.

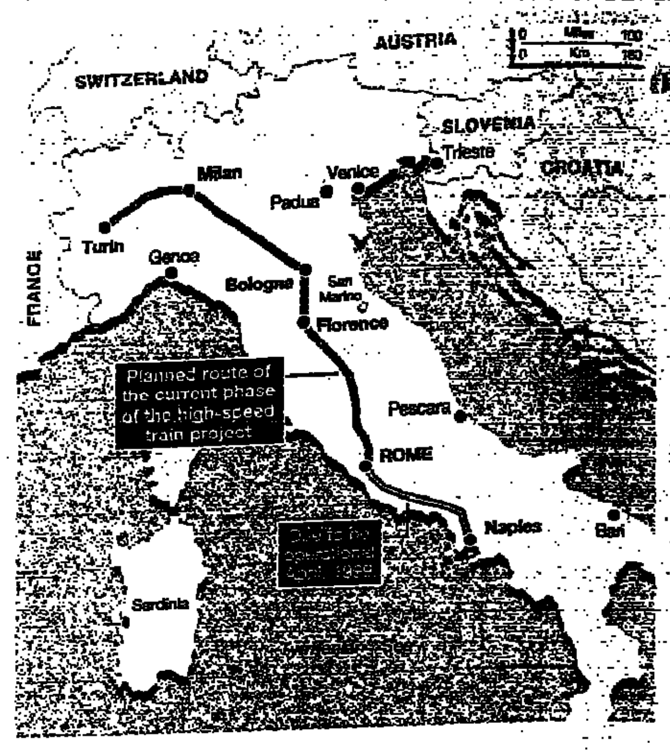
Italy's high speed train venture is the country's first joint public and private sector attempt at project financing. It has share capital of L100bn. Shareholders voted to increase this to L1,000bn in April of last year. Cash calls were expected this year but have not been made yet. As a condition of raising fresh capital shareholders asked that the planning roundtables for the Milan-to-Bologna and Bologna-to-Florence sections should be completed, and that the environment ministry should approve environmental impact assessments for the Bologna, Florence, Rome and Naples junctions.

Italy's public sector will provide 40 per cent of the investment needed. This consists of L800bn of the planned total of L2,000bn in equity, plus L9,450bn of soft and deferred loans. Private sector finance will supply L1,200bn of risk capital plus L13,700bn of loans. In contrast to Eurotunnel the state will be deeply committed to the project's financial needs. "Pure project financing does not work in this size of venture. The state is needed as a partner," affirms Mr Incalza.

State-sponsored ventures have run aground in the past. Will the TAV project be another bottomless pit absorbing vast sums of public money? Mr Incalza says not. He emphasises that traffic forecasts have been prudential, based on high speed train services taking only 15 per cent of air passengers from the dense Rome-to-Milan route.

On paper TAV will pay dividends in 2003. Potential investors - the company talks of flotation - probably want to see more progress before making any commitments.

The project's credibility should get a boost from the European Investment Bank which is expected to announce a L1,700bn loan. A shareholders' meeting later this month is expected to reconfirm the share capital increase, but only by L300bn for payment early next year, thereby missing the chance of giving a clear signal of confidence.



PROFILE Fashion Box

American style, Italian success

Behind the Anglo-Saxon ring of the name Fashion Box is a remarkable Italian entrepreneur.

Mr Claudio Buziol founded Fashion Box 18 years ago aged only 20. This Veneto clothing manufacturer and store promoter now heads one of the fastest-growing groups in Italy with two-thirds of income coming from exports. Over the past five years turnover has increased almost eightfold, jumping to L277bn (£112m) from L35bn. It employs 400 full-time staff with a further 3,000 working from home. It also has a subsidiary in Romania.

Growth has been so rapid for the group's principal clothes brand-name Replay that the emphasis is now on consolidation. Mr Buziol, who has combined the roles of stylist, manager and chief salesman, realises he can no longer do everything.

"This is the saddest moment, when one has to concentrate more on the managerial side," says Mr Buziol who has shoulder-length hair and wears open-necked sports shirts. "But I'm willing to pay the price if it means securing the group's future."

Fashion Box grew out of the idea of producing clothes based on designs of the forties and fifties, or earlier. Mr Buziol began with models drawn from American work shirts of the forties, producing them for two shops owned by his parents in the Treviso area. The label's name was taken from the action replays on Italian television during the football World Cup.

Within three years Mr Buziol branched into washed-look fabrics for casual wear, concentrating on the French and UK markets. During these early days he spent little on advertising and even today this accounts for only 6 per cent of turnover.

In 1986 Mr Buziol decided to take in an outside partner to help fund his expansion. Ms Marina Salamon, a prominent Venetian financier with close links to the clothing business, bought a 49 per cent stake. In the context of the tight-knit family structure of Veneto business this was an important step and taken at a relatively early stage in the life of Fashion Box.

Three developments have since contributed to the group's dramatic expansion. The first has been the diversification into jeans production through the use of a new denim fibre brought from Japan.

The second has been the creation of a stores project as a retail outlet for Replay labels. Mr Buziol and his creative advisers set up a chain of stores reproducing the atmosphere of a turn-of-the-century store in a US frontier town. Starting with 16 Replay Country Stores in 1992, there are now almost 100 worldwide. Some are directly owned through local subsidiaries, others are franchise operations. Among the markets targeted for expansion are the US and south-east Asia.

Finally the 1992 lira devaluation boosted sales because it meant prices, which otherwise would have increased, were held down. But Mr Buziol points out 80 per cent of raw materials are imported and devaluation has not resulted in pure gain.

Consolidated net profit last year was L19.8bn. Italy's 1995 budget permits profits to be re-invested so Mr Buziol is spending L16bn on new headquarters. In line with Replay style, the facade will be like an American factory building of the twenties. To offset heavy dependence upon the "vintage clothing" market, Fashion Box is diversifying into perfumes, spectacles and toys.

Robert Graham

■ **The north-east:** by Robert Graham

Big crocodiles, small pools

Family ownership and an orientation to exports has produced success in the Veneto

From outside, Morellato's anonymous modern headquarters building looks like the countless other industrial operations that fill the flat countryside of the Veneto. A leering stuffed crocodile inside the bare reception area provides the only hint of what the company produces.

Crocodile skin is one of the materials used to make Morellato's watch straps. Over the past decade the company, which is based near Padua, has established itself as a world leader in leather straps and metal bracelets for watches.

"We are leaders in a micro-sector," says Mr Massimo Carraro, the 37-year-old chief executive of this company, owned by his family since 1954.

Sales have quadrupled in ten years and the business has provided a 5 per cent real return on capital. This year the group expects to have a turnover of around L90bn (£37m) compared to L17bn back in 1986.

The publicity surrounding the extraordinarily rapid growth of the clothing manufacturer Benneton and spectacle frame maker Luxottica has completely overshadowed the achievements of hundreds of companies like Morellato operating in specialised sectors.

The story of Morellato is a microcosm of how so many of the small groups in Italy's north-east have become dynamos of a surge in exports that began in 1993. The local economy is now growing at least one percentage point above the national average of 3 per cent. Unemployment is down to 5 per cent of the workforce - half the national average and between four and five times less than the worst rates for regions of southern Italy.

Unlike other areas of northern Italy the Veneto lacks big companies, with the exception of Zanussi, the domestic appliance group and the now much-reduced chemicals industry round the Venice lagoon. This means that the labour force lacks a history of militancy.

Widespread industrialisation, feeding on a strong artisan tradition, is a phenomenon that scarcely goes back two decades. The bulk of local companies first began to invest heavily in the mid and late 80s. They are only now gaining a higher profile. Apart from learning from the experience of the rest of industrial northern Italy, these Veneto groups have profited from being family-run concerns operating in niche markets with a strong export orientation. Their natural markets have been northern Europe and the new economies of eastern Europe.

Often these companies produce only part of a fully-finished product. Some businesses began in this way and then moved into manufacturing the finished product. Askoll, for instance, the European leader in domestic aquarium manufacture, started out 18 years ago merely making the pumps. Another set of companies concentrate on products in a specialised sector of a market, like Rossimoda, a big Veneto name that produces women's shoes for leading fashion houses.

Relatively few companies have involved themselves in heavy engineering products. Companies like Bassano Grimeca, which makes wheels for bicycles and motorcycles and Carraro, which produces axles for tractors are rare exceptions. Most concerns are directly involved in consumer-oriented sectors, including clothing, fashion accessories, home fittings and architectural adornments. In some cases traditional artisan activities have been transformed into industrial production. A leading example is provided by Bisazza near Vincenza, founded 30 years ago and now one of the pioneers in the manufacture of glass mosaics for walls, floor and pool tiling.

Morellato was founded by an artisan and entrepreneur in the 30s to take advantage of opportunities for using leather in watch straps. The Carraro family took over in 1954 when the founder's two heirs, uninterested in remaining in the business, sold their shares to one of the firm's managers.

Growth has been organic, never through acquisition. Profits have been studiously re-invested and expansion funded without resort to banks. Morellato's secret has been to keep the production structure flexible while concentrating on improving what the company knows how to produce rather than diversifying. This has meant a major commitment to innovative materials combined with a strong design input.

The company's policy has been to concentrate on producing for retail outlets and not directly for watch makers. Morellato has thus had to build a distribution and customer service network. Initially this was concentrated in the domestic market, which Morellato now dominates with a 40 per cent share of sales, and then expanded to the EU.

"The break-through in sales came in the mid-eighties when Morellato began manufacturing watch straps with an important design content packaged as part of a person's overall look," says Mr Carraro.

Although the 1992 devaluation of the lira and its subsequent decline has helped export-led growth. Mr Carraro thinks this is not the sole reason for it. A Spanish distribution company was set up in 1990, and another in Germany in 1991, creating the conditions to exploit the devaluation.

The company resolved a key generational change in management when Mr Carraro, a professor of comparative law at Milan University and a practising lawyer, agreed to become the chief executive in 1986.

In 1993 Morellato opened a plant in Hungary to provide a low cost production centre in addition to two established manufacturing sites in north-east Italy. The Hungarian plant, at Csurgo 20kms from the Croat border, is eight hours by truck from company headquarters. This shows how companies located in this part of Italy can take advantage of their geographical proximity to new east European markets to open up new sources of production and sales. Mr Carraro says production costs in Hungary are an eighth of those in Italy.

Italian operations now employ 460 people. Almost 100 more jobs have been created in the past two years. Of these 70 per cent are for women. The dirtier jobs are almost exclusively done by non-Italians - the night shifts are staffed mainly by Nigerians. Relatively high local production costs mean that expansion will come from an increase in production in foreign countries. Mr Carraro envisages that in future management, design, quality control and sophisticated elements of production will be co-ordinated from headquarters, linked via computers and video conferencing to low-cost manufacturing centres.

"We accept there will be competition, but this is at the cheap end of the market. Our strength is quality and design which is why we are picking up sales in the middle class markets of Malaysia and Singapore," Mr Carraro says.

Like a lot of the small companies in the Veneto which are strongly export-oriented, the last market to be addressed by Morellato is the US. This is partly a question of culture; it also seems to be due to the sheer size of a market which demands a large and costly commitment of time and human resources.

Many like Morellato have established themselves in so many different markets that they need to consolidate their growth. But they are still nimble enough - providing their products are right - to concentrate on the market offering the best opportunities of the moment. Their weak point is their under-capitalisation.

مكررا من الاصل

WORLD COMMERCIAL VEHICLES

Adapting to change in a shrinking world

Collaboration is the key to meeting development costs, says Haig Simonian

The truck maker's world is steadily shrinking. Takeovers, alliances and one-off deals between manufacturers have slimmed the ranks of the commercial vehicles industry. Now, consolidation and globalisation are as much buzz-words in trucks as in the bigger passenger car business.

The aim in trucks, as in cars, is to achieve economies of scale to spread the cost of product development. But the commercial vehicles industry is also squeezed between the impact of tighter safety and environmental legislation, involving heavy research spending, and the reluctance of customers – many barely recovering from recession – to pay more for their products.

The drive to spread development spending has been reinforced by the ruthless cycles of the commercial vehicles business. The peaks and troughs of demand for trucks take manufacturers from feast to famine in the matter of a few years. Becoming more global helps manufacturers cushion themselves against the vagaries of demand in their main markets.

Broader coverage and higher volumes are also decisive when it comes to negotiating favourable prices or delivery times with suppliers. Money saved by spreading research and product development costs between a number of markets can be re-allocated to more immediate commercial needs, such as improving dealer networks or investing in a financial services subsidiary to meet the rising demand for contract hire.

Rationalisation among commercial vehicle makers is nothing new. In Europe, it has reduced the number of producers from 40 to 12 in the past 30 years.

Now, however, even manufacturers which have long transcended their domestic markets to become big regional operators want to become more global.

European companies have taken the lead. Although it is some years since Mercedes-Benz bought Freightliner, Renault took over Mack and Volvo invested in White, only relatively recently have they started exploiting the potential cost savings by pooling resources with their subsidiaries.

Formerly, many manufacturers argued that national differences in the truck business were too great for such disparate markets as Europe and the US to be treated similarly. Even now, no one would try to persuade conservative US truckers to forsake their customised juggernauts in favour of European vehicles.

In much the same way, the Japanese market will continue to be dominated by domestic manufacturers producing models which are similar, but smaller and lighter, than their European counterparts. And south American truckers will continue to demand sturdy, heavyweight vehicles which are something of a cross between their US and European equivalents.

But while such regional differences will remain, manufacturers now appreciate how much can be done under the surface. The industry is still a long way from the global platform strategies of some leading car producers. However, a number of truck makers are examining their international operations with a new perception of the potential for collaboration.

Sometimes, necessity has been the mother of invention. The collapse of the Volvo-Renault merger, which would have triggered a big rationalisation in truck operations, has forced both companies to refocus on their big US subsidiaries.

Even Mercedes-Benz, the world's foremost truck maker, is trying to improve the links between its European operations, Freightliner in the US and its south American subsidiaries.

Non-Europeans are thinking along similar lines, although their plans are much less advanced. The regional isolation of Japan's truck makers may be terminated sooner than expected if rumours that Isuzu is in serious co-operation talks with a European manufacturer are true.

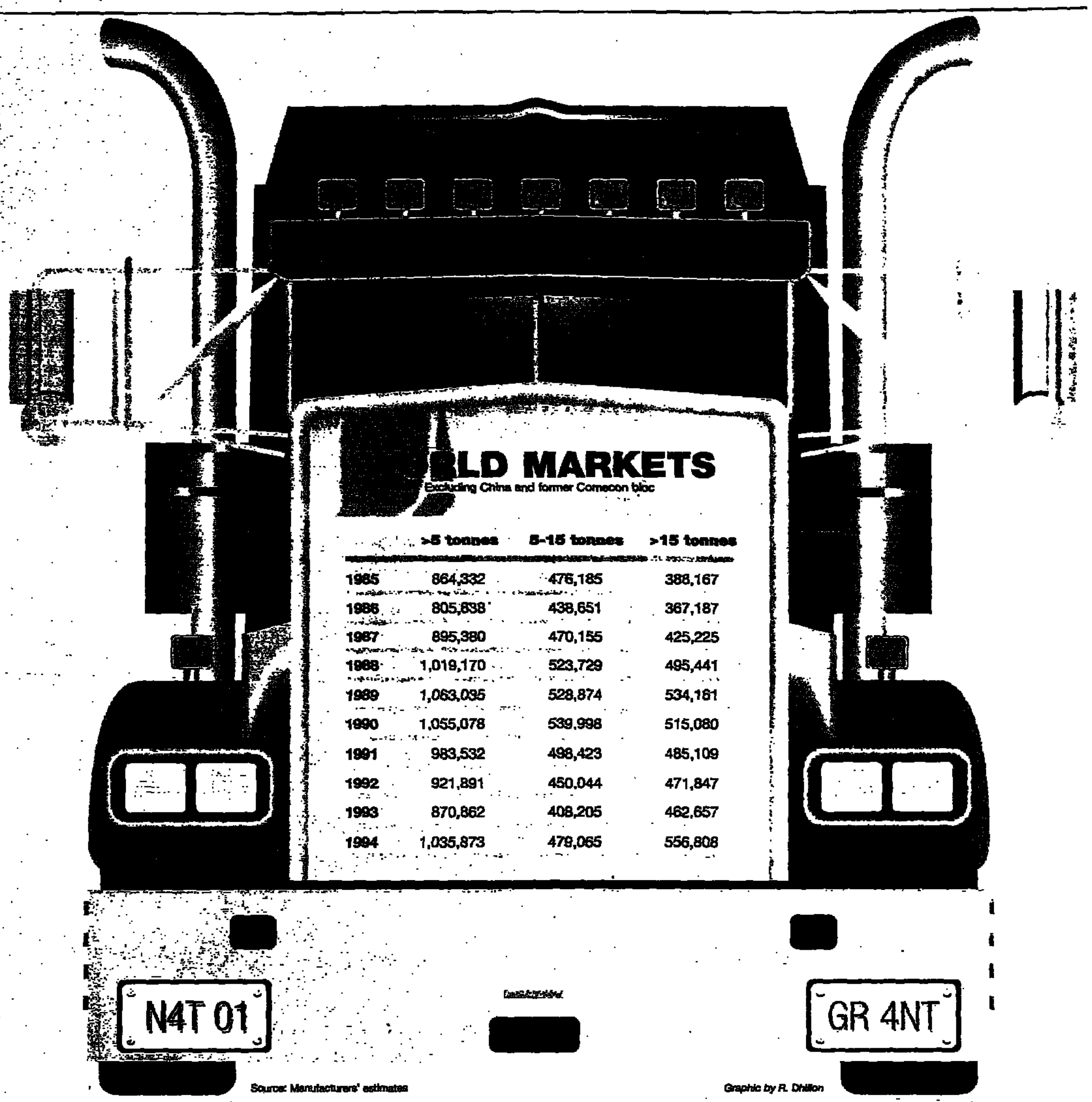
Less speculatively, Daewoo of South Korea is demonstrating that manufacturers from the far east do not have to be purely regional. In recent months, Daewoo has stunned its competitors by snapping up every smaller east European truck maker in sight.

Legislation will reinforce the pressure on manufacturers to consolidate or collaborate. Tougher environmental rules, such as the European Union's Euro 3 noise and emission standards due to take effect before the end of the century, will present new technological hurdles.

Although such rules will remain national or regional in scope, the investments needed to meet them will serve manufacturers in all their markets.

Spending on higher safety standards, lower fuel consumption and new lighter, stronger materials will be seen as equally useful across the international spectrum, rather than just for whichever regional market is forcing the pace for change.

Such forces will push the world's truck makers into exploiting all the possible advantages to be gained by co-ordinating their international operations more closely, and, in some cases, by working together with competitors on specific projects.



...LD MARKETS
Excluding China and former Comecon bloc

	>5 tonnes	5-15 tonnes	>15 tonnes
1985	864,332	476,185	388,167
1986	805,838	438,651	367,187
1987	895,380	470,155	425,225
1988	1,019,170	523,729	495,441
1989	1,063,035	528,874	534,161
1990	1,055,078	539,998	515,080
1991	983,532	498,423	485,109
1992	921,891	450,044	471,847
1993	870,862	408,205	462,657
1994	1,035,873	479,065	556,808

Source: Manufacturers' estimates
Graphic by R. Dhillon

Western Europe: by Haig Simonian

Taking heed of forecasts

The truck market is recovering strongly and this cycle should continue into 1997

When DRI and the EIU, two of the world's leading automotive forecasters, published near-simultaneous outlooks for commercial vehicles last month, it was more than just coincidence.

Reliable forecasts are always sought towards the end of the year as manufacturers finalise their budgets for the 12 months ahead. This year, however, their interest has been uncommonly keen, as 1996 promises to be crucial for many of the biggest names in the industry.

Mercedes-Benz, Europe's fore truck maker, and Renault V I, one of the top five producers, are at the forefront. Both companies, suffering from an outdated range, will be belatedly taking the wraps off some of their most important new models for years.

Mercedes-Benz will reveal replacements for its ageing heavy truck range at the the Hanover commercial vehicles show in September. Renault V I will be using Hanover to display at least one of the four new intermediate-weight trucks to be introduced by 1998 as part of its overdue product replacement drive.

Volvo, Europe's second-biggest truck maker, and Scania will also be poring over the forecasts. Volvo is gradually diversifying away from its core heavy trucks towards lighter vehicles. Scania, having just introduced the first models in its long-awaited new heavy truck range, will be filling out the family with versions for construction and urban distribution. Daf, rescued from bankruptcy in 1993, has also been busy with new models. It has fleshed out its continental European range with a new light-medium track made by Leyland Trucks, its UK partner. And Mercedes-Benz will be anxious to gauge whether the warm' reception for its new Sprinter van, launched in early 1995, and its more recent Vito van, will be sustained.

Scania and Renault have special reasons to heed the forecasters. Both are planning crucial stock market operations during 1996. Investor, Scania's Swedish parent company, says it will float part of its stake sometime in the next five years: analysts expect about 75 per cent of Scania's shares to be placed during 1996. Renault, which is still state-controlled, hopes 1996 will complete what failed to take place this year. The expected sale of most of the state's remaining 50 per cent stake in Renault was thwarted by the company's lacklustre share price. Ministers will be hoping 1996 will prove more promising.

In spite of their concern over new models and the vagaries of the bourse, leading truck makers have reason to be cheerful. The west European truck market, which started inching out of recession last year, is recovering strongly. In the first nine months of 1995, sales of trucks of more than 3.5 tonnes consolidated last year's upswing with a rise of almost 20 per cent to 206,000 units, compared with the same period last year.

Bernd Gottschalk, the head of commercial vehicles at Mercedes-Benz, is confident demand will remain buoyant next year. Although he has warned that production risks becoming lopsided because of the strong demand for the Sprinter, Mr Gottschalk is bullish about the year ahead.

Shemaya Lévy, his opposite number at Renault V I, is as confident. "All the signs are the cycle will continue upwards in 1996 and 1997, prior to sales falling in 1998 and a full downcycle by 2000", he says. But he warns of "some uncertainty" behind even the best predictions.

At Iveco-Ford, the UK joint venture controlled by Fiat of Italy, Roger Phillips, commercial operations director, is forecasting a rise of about 16 per cent in west European registrations of trucks weighing more than 3.5 tonnes to more than 500,000 units in 1996. "The strongest rises will be for light and heavy vehicles, while demand for intermediate weight trucks of between 7.5 tonnes and 15 tonnes looks broadly static", he predicts.

Sweden is also bullish, although Leif Ostling, Scania's chief executive, is wary of making even the blandest predictions ahead of flotation. A less inhibited Karl-Erling Trogen, his opposite number at Volvo, reckons sales of trucks of more than 16 tonnes should exceed the 170,000 units expected this year.

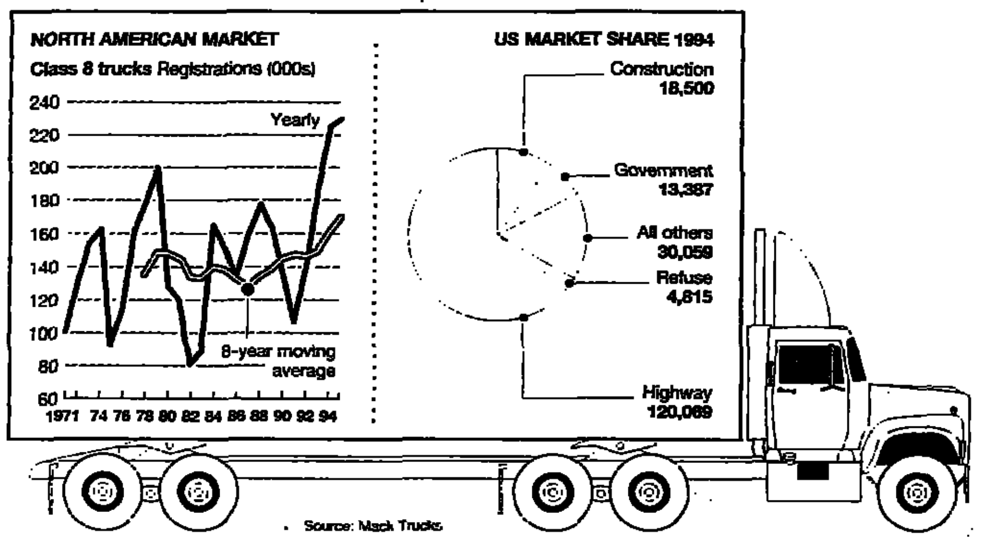
A new face: Italy's Bertone provided the design inspiration for Scania's striking new range

Buoyant markets have brought their problems, however. Some manufacturers have had been unable to meet demand, extending delivery times. Scania, arguably Europe's most successful truck maker at present, was quoting delivery times of between two and five months earlier this year. Extra shifts and limited re-organisation have reduced that a little, but "we're still stretched", says Mr Ostling. Scania is not alone. "We have difficulty meeting demand", says Mr Trogen, who acknowledges delivery times on some models have exceeded six months this year. Volvo is spending \$300m to help increase its production ceiling by about 10,000 heavy trucks a year by late 1996. Delivery problems have been exacerbated by bottlenecks along the supply train. Supplies of tyres, in particular, have been stretched severely this year.

In spite of their confidence for the present, Europe's truck makers remain wary about possible structural changes to demand. Increasing traffic congestion and ever-tightening environmental legislation – particularly in city centres – are foremost. The industry has already invested to meet the latest Euro 2 environmental standards from the European Union, due to take effect from next October.

However, many manufacturers are concerned that Euro 3, theoretically due in late 1997 or early 1998, may be forcing the pace. The Euro 3 standards have not yet been finalised, although much of the debate on tougher rules on noise and emissions, and on ensuring every unit meets the right standards, has already taken place. Judging by the delays to Euro 1 and Euro 2, Euro 3 may well slip to 1999. However, some manufacturers argue even that is too soon. Although they are confident they can rise to the technological challenge, Euro 3 will put a substantial premium on truck prices because of the sophisticated electronic engine and gearbox management systems it will require.

Many truck makers are asking whether their customers will be prepared to pay more. Hauliers have been battered by recession and deregulation in the 1990s, pulverizing their profits. Whether they will be willing to stump up for the new gizmos needed to make trucks even greener remains to be seen.



Source: Mack Trucks

United States: by Laurie Morse

A year of order backlogs

Makers are beginning to cut costs to stimulate demand and keep production going

The US heavy-duty truck business appears to be hitting its peak, after two years of abnormal expansion that left North American truck assemblers with such strong demand that their order backlogs stretched out a full year as recently as last March.

Now, a moderate slowdown in US industrial production, combined with the flagging fortunes of some of the nation's largest retailers, is cutting the number of loads available to cross-country truckers at the same time as thousands of new trucks are hitting the road for the first time. The result – declining freight rates – has prompted a rash of order cancellations of orders for new trucks, and left the production and sales outlook for Class 8 heavy trucks in limbo for 1996.

"I don't like to make predictions, because it depends entirely on the health of the economy, but I'm looking for about a 10 to 15 per cent sales decline (for heavy trucks) next year," said Frank Prezelski, managing director and director of research for the brokerage firm Ladenburg, Thalmann. Other analysts are more pessimistic, saying overcapacity created by two years' worth of fleet rebuilding will take longer than a year to digest. They expect US heavy truck sales will fall nearly 30 per cent to about 175,000 units in 1996, down from this year's record of 240,000 units.

Share prices for publicly-held original equipment manufacturers, diesel engine producers, and the truck assemblers themselves reflect the more pessimistic view, as shareholders remain sceptical that this highly cyclical sector is capable of maintaining profits as the cycle turns toward a trough. Even stocks of low-cost manufacturers like Seattle-based Paccar, which assembles top-of-the-line Class 8 trucks under the Kenmore and Peterbuilt nameplates have been trading at a discount to earnings since 1991, despite the robust growth in demand and in profits through this year.

"Many of these companies have put cost-reductions into place over the upturn," said Chris Mecray, transportation equipment manufacturing analyst for the Baltimore-based brokerage firm of Alex Brown, "People have been looking for proof these companies can make a profit at the bottom of the cycle, and this next downturn may prove they can perform." Signs of a contraction are unmistakable. The backlog of unfilled orders for Class 8 trucks in north America had fallen from a peak of 224,516 units last March to 124,979 units at the end of October. Although new orders for heavy trucks continued at about 13,000 units per month at the start of the fourth quarter, order cancellations reached alarming levels in late summer.

The cancellations turned net orders for new trucks negative during August and September – a phenomenon not seen since deregulation devastated the industry in 1981. Analysts say the two-month negative turn in net orders may merely have been an adjustment by truck retailers after the super-heated order environment of the past year. "There was something of a herd mentality involved in the order surge last year," said Mr Mecray. "Retailers placed orders anticipating business they didn't have, fearing they wouldn't be able to get the trucks otherwise. When things calmed down, they cancelled."

By October, net orders had returned to positive territory, although the cancellation rate – still near 44 per cent of new orders – remained high.

For truck assemblers and their suppliers, the downturn, regardless of its severity, will test their business strengths. Navistar, the Chicago-based engine-maker and truck assembler, is still grappling with the high-cost benefit burden it took on when it sold off most of the divisions of its old identity, International Harvester, during the 1980's. Although it has won a number of labour contract concessions, it still has a higher cost-base than its competitors. Freightliner, the nation's biggest heavy-truck producer, is owned by Germany's Mercedes-Benz and does not disclose profit or sales figures to the public. However, some analysts believe it was Freightliner which was hardest hit by the order cancellations last fall. Both truck makers have recently begun to cut prices, in an attempt attempting to stimulate enough demand to keep production going at current levels and maintain highly profitable manufacturing efficiencies.

So far, the only equipment manufacturer that has felt the effects of the contraction has been Indiana-based Cummins Engine. Cummins, which has diversified internationally in China, India and Scandinavia over the past five years, is still a leading supplier of diesel engines in north America, with truckmakers like Chrysler among its biggest customers.

In October, Cummins said it intended to cut costs in response to declining north American heavy-duty truck engine demand. It said it was considering selling some operations, and would reduce its worldwide workforce by about 9 per cent, or 2,000 positions. Cummins expects to take an unspecified fourth quarter charge to earnings to cover the cutbacks.

Despite a clear peak in the demand cycle, the north American heavy truck industry is far from facing a free-fall. Even if sales and production fall 25 per cent in 1996 from this year's peak, the industry would still have its third-best year ever. If US interest rates remain low, and barring a severe recession, analysts say the downturn could be as brief as one year, with 1997 production flat and growth resuming in 1998.

Eastern Europe: by Pat Kennett

Few chinks of light in the gloom

There is potential, but archaic standards and conditions pose problems

"Eastern Europe is like a vast dark cloud on our horizon, and there are few chinks of light showing through." This comment, by a senior director at MAN, the Bavarian truck builder, typifies the view of many western truck men, be they manufacturers, operators, legislators or environmentalists.

Sales of western-built trucks in the region are, at best, modest although bus business is better, and sales of used vehicles from western Europe continue to prosper. Hauliers in the east are ready to work at a fraction of the rates prevalent in the west. Their trucks, frequently of obsolescent design, come nowhere near to meeting environmental and safety standards mandatory in the west, unhelped by very poor standards of diesel fuel. Hans Drewitz, a senior development engineer at MAN says that "one wonders sometimes what is the point of all our environmental work in low emissions, safety and noise-attenuation when, just a few kilometres to the east, little or no regard is paid to exhaust gas content, safety standards or drivers' hours."

The hope of regeneration in eastern Europe and the former Soviet Union which was widely forecast in 1991, was wildly optimistic. There is great potential but the reality falls a long way short of even the most modest early forecasts.

Not only has the expected demand for new trucks to mobilise market economies been severely restricted, mainly by lack of financial resources, but a high proportion of haulage concerns are unwilling to invest in locally designed and built trucks when, quite clearly, western designs are superior in quality, safety, running costs and earning ability.

It is largely for these reasons that sales of used western trucks have featured largely in the east over recent years. Taking that route, the hauliers believe they can develop sound businesses, with some degree of efficiency, and the western manufacturers encourage the habit, simply because it helps to build up a vehicle 'park' on which the necessary, viable service network can be established. The mutual expectation is that such an approach will lead to new vehicle sales and onward growth of business.

It is against that background that the activities of the indigenous commercial vehicle makers, and their western competitors must be assessed. Two clear strategies in the industry are evident. On the one hand, eastern manufacturers are seeking technical partnerships with western component companies, in order to develop vehicles which go some way to meeting western standards. Zil's Caterpillar-powered trucks have been a modest success in Russia and several other states. Kamaz trucks powered by Cummins engines show signs of operating success in the early stages of field experience and Kamaz is now seeking a partner to help replace its own rather fragile drive axles. Iveco's transplant of modern driveline components into heavy Uralaz-construction trucks has revitalised that company's sales.

Joint ventures

On the other hand, there are examples of eastern producers taking their courage in both hands, scrapping their own ancient designs, and setting up a joint venture with a western partner. Mercedes-Benz was just such a partner in 1992 when Avtokron scrapped its old bus and coach designs and adopted a modified rear-engined Mercedes vehicle, originally developed in Mannheim. Renault acted similarly wth Jelcz. Last month, Ivoco signed an agreement with the Ukrainian manufacturer, Kraz, to build a range of trucks from 3 to 16 tonnes gvw, and this illustrates the procedure admirably. Kraz provides the site and the buildings, but no cash and very little technology. Iveco provides the design and production technology and the equivalent of \$10m cash investment. The remaining finance is contributed by the European Bank for Recovery & Reconstruction (EBRD) – \$18m now, and possibly more later. Shares will be split 30:30:40 by the three partners.

The EBRD seems to be very cautious in its approach to this kind of development, with good reason, because many eastern plants and technology levels are remarkably ancient, and their prospects of catching up on 40 years of stagnation are remote. Typical of such casualties was Mercedes' attempt to develop east Germany's IFA truck range. The task proved impracticable. The IFA plant now produces Mercedes medium trucks for world markets.

A very few Eastern truck builders are soldiering on alone, or with small western input. Tatra is one such, and while its massive all-independent-suspension, air-cooled, 3- and 4-axle trucks ars too heavy by western standards, they work well in markets like China and the Middle East.

Despite the difficulties, some western manufacturers are slowly making inroads into the markets of eastern Europe and the CIS. Prominent among these is Scania, concentrating on Poland, the Czech Republic and Hungary, but also courting Russia and the Baltic states.

In 1994, only about 300 trucks were sold in the region, but that will top 1,000 in 1995. Scania courageously established a joint venture assembly plant in Poland in 1993, and this year it completed its 1,000th truck. Volvo has a wider geographical spread, with representation in no less than 17 states from the Baltic to the Black Sea. Sales in the majority of them are minimal, but Poland, the Czech Republic, Hungary, Bulgaria and Russia each accounted for over 200 units in the first 9 months of 1995, with Poland topping the table at 1,317 trucks.

Volvo claims to have over 10,000 trucks working in the region now, adequate reason for investing in a proper service support network in conjunction with local companies. Volvo appears to be the first to solve the field support paradox of volume versus investment, but others are not far behind.

Europeans in the US: by Haig Simonian

Truck acquisitions reverse the trend

Mercedes, Renault and Volvo have the same objectives but work through different strategies

The pattern of US acquisitions in the European car industry is being reversed in the case of American trucks, as leading European manufacturers have bought some of the country's most famous truck makers in recent years.

Now, the Europeans, led by Mercedes-Benz, Renault and Volvo, want to narrow the gap between their domestic and US operations to pool resources and save costs on purchasing, research and development.

American truckers may barely notice that Freightliner belongs to Mercedes-Benz, that Mack is part of Renault or that GM White is controlled by Volvo. But if the plans under consideration in Stuttgart, Paris and Gothenburg reach fruition, it may not be long before they start to spot the difference.

The US (and Canada) is the world's biggest truck maker, accounting for 34 per cent of the 1.06m trucks built internationally last year (excluding China and the former Soviet Union). A local presence is essential for any manufacturer building a global trucks business. The market's domination by heavy (CLass 8) vehicles of more than 16 tonnes makes it particularly appealing to Europeans such as Volvo, Mercedes-Benz and Renault.

A US operation also helps a manufacturer spread its risks in the highly cyclical commercial vehicles market. In the 1990s, the American economy came out of recession earlier than Europe, allowing European truckmakers some protection against the continuing downturn at home.

The US has gained additional importance for Renault and Volvo since their planned merger collapsed. Under the original scheme, Mack and GM White would have been increasingly integrated to plug gaps in each other's ranges. Only when the rationalisation of the US operations had been completed would the merged Volvo-Renault group in Europe have looked to synergise with its US side.

The failure of the merger has made Renault and Volvo intensify plans to integrate with their US subsidiaries to try to achieve some of the cost savings, productivity improvements and simplified foreign expansion strategies that were envisaged from the original merger. That means new generations of Renault and Volvo trucks in Europe and the US are likely to have increasingly shared roots, and even some identical components, even if their exterior styling remains as heterogeneous as ever. Greater integration is also on the cards at Mercedes-Benz and Freightliner.

There are, however, marked differences behind the three European operations in the US, even if the European parent companies are thinking along similar lines. Mack and GM White (renamed Volvo since July) are traditional east coast producers, with long traditions, many old factories and relatively high levels of union membership.

Freightliner, based in Portland on the west coast, has a different business mix. While Mack is a major supplier of trucks for construction and municipalities – principally meaning refuse collection (as is Volvo) – Freightliner is best known for long-haul transportation.

Such dissimilarities explain the three companies' differing exposure to financial pressures in recent years. Mack and Volvo lost money in the early 1990s as construction and public spending contracted in the recession. Both companies were forced into expensive restructuring programmes. Freightliner, by contrast, has been more resilient thanks to its concentration on interstate transportation and the strength of the west-coast economy.

But the demarcation lines between the three are blurring as competition and product diversification intensify. Freightliner's acquisition earlier this year of Oshkosh, a west coast manufacturer of buses and truck chassis, may presage a move into heavier vehicles for construction. The company also bought LaFrance, a specialist maker of fire engines. Mack, meanwhile, wants to expand in freight transportation, in which it only has a 7 per cent market share, according to Pierre Jocou, its chairman.

Collaboration

The most striking similarity between the three is their increasing integration with their European parents. That means greater co-ordination in research and development for components, such as drive-trains and electronics, and closer collaboration in manufacturing to share ideas on cost savings and productivity improvements.

Some projects are already well advanced. Freightliner has launched an ambitious three-way engine development programme with Detroit Diesel, a specialist engine maker 20 per cent owned by Mercedes-Benz, and the German company's big Brazilian offshoot.

Engineers from Detroit Diesel, Freightliner and Mercedes-Benz have jointly developed an improved version of an existing Mercedes 12-litre powerplant.

The new Detroit Diesel Series 55 engine will at first be offered exclusively to Freightliner customers. That will give Freightliner customers access to Detroit Diesel's extensive service network.

At a later stage, Detroit Diesel will be allowed to sell the engine to other truck makers, while Mercedes-Benz's Brazilian subsidiary will build the new engine for sale in markets outside the North American free trade agreement.

The new powerplant features prominently in Freightliner's new Century Class tractors, to go on sale early next year. The new vehicles, developed jointly with Mercedes-Benz's Stuttgart headquarters, involve "the most advanced computing testing and automotive manufacturing capabilities in the world", says James Hebe, Freightliner's chief executive.

Volvo has also tightened the knot between its US and European arms. It expects its next generation of US trucks to reflect much of the thinking behind the FH series of heavy trucks already sold in Europe.

The product development programme is part of a \$400m-\$500m investment programme now under way in the US. Buyers of US Volvo trucks can already specify the 12-litre engine which has won plaudits on the FH. By offering its proven European powerplant, Volvo hopes to raise the proportion of its own engines sold in its US trucks from 15 per cent to 25 per cent within the next two years.

The aim, says Karl-Erling Trogen, president of Volvo Trucks and a former head of its US subsidiary, is to improve profitability in the US.

Shemaya Lévy, the chairman of Renault V I, says his company also expects to reap financial rewards from working more closely with Mack. Mr Lévy points to cost benefits in developing mechanical components and engines jointly and in co-ordinating purchasing to save money on outside supplies. Mack and Renault V I also intend to harmonise their expansion plans for markets outside Europe and the US.

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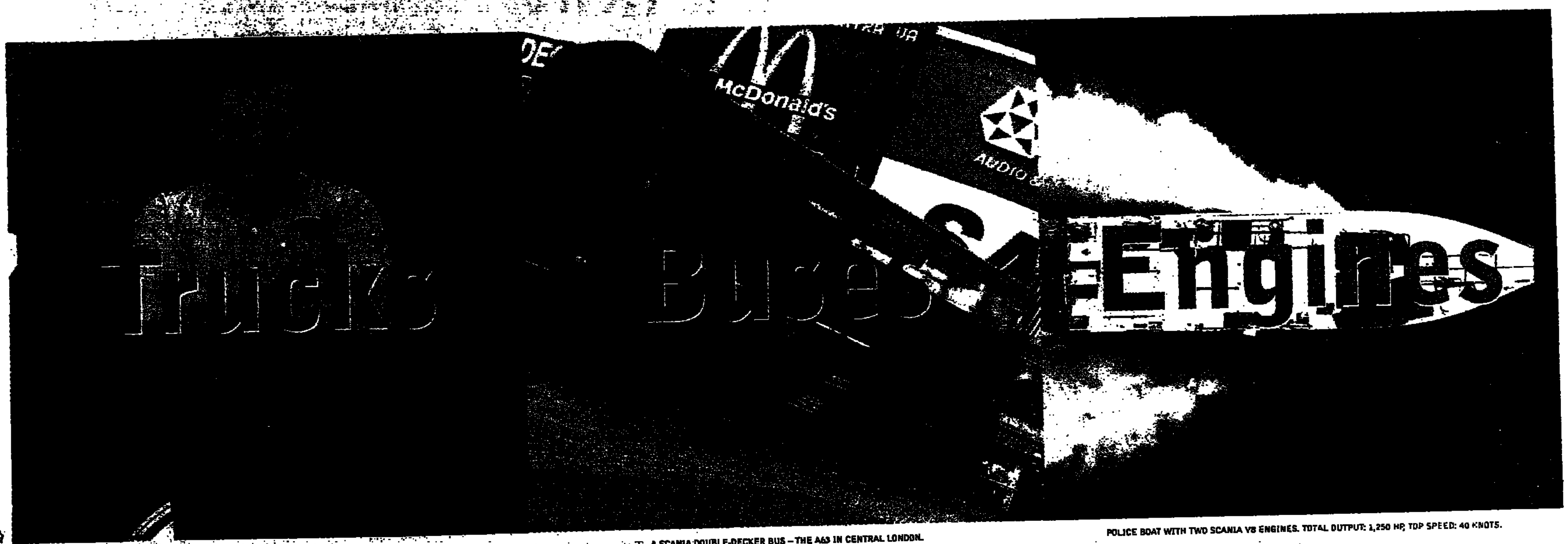

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■ **Japan:** by Michiyo Nakamoto

Regulatory changes lead to new demand

Why restrictions on fuel emission are helping to insulate manufacturers from recession

In a year in which the Japanese economy has shown few signs of bouncing back from its doldrums, Japanese commercial vehicle makers have enjoyed a period of strong demand not seen for many years

However, the increase in commercial vehicle sales over the past year or so has been spurred by regulatory changes rather than a revival of economic activity.

The positive environment for commercial vehicle makers has been the result of increased purchases by transportation companies and other users of trucks which have been replacing their old vehicles with new models in order to meet new, stricter restrictions on fuel emissions and overloading.

After a strong rise in sales during the last fiscal year, which ended in March 1995, in the six months to September of this year there was a healthy increase in truck sales of 15 per cent, year-on-year, to 80,223 units, which has supported improved results at many commercial vehicle makers.

Hino Motors, a leading truck maker, saw a rise in unit truck sales of 18 per cent in the first half while Mitsubishi Motors, which has a share of about a third of both the large and small truck markets, increased its unit sales by 8.5 per cent.

> Commercial vehicle makers face the same difficult, structural changes as the car industry

As expected, however, the party in the domestic truck market came to an abrupt end in the second half of the fiscal year, after the October 1 deadline to meet the new regulatory standards passed. This underlined the strong dependence on industrial activity and regulatory changes that characterises the industry.

Sales at Hino Motors slumped 25 per cent in November in unit terms and the company expects that overall market demand in the second half of the year to the end of March will fall 10,000 units below the first half to about 70,000 units.

Although the Japanese government has grand plans to boost the domestic economy with more public works projects and other measures, the industry does not believe that such expedients will be sufficient to make up for the overall slump in private sector investment and consumer activity that has plagued the country.

As a result, Hino Motors, for example, is forecasting a 9 per cent decline in full-year sales.

On a longer-term basis, while there will no doubt still be periods of firm demand from time to time, Japanese commercial vehicle makers face the same difficult, structural changes as those affecting the passenger car manufacturers.

"The peak of domestic demand for trucks in recent years was 190,000 units in 1990," says an official at Hino Motors. "Although this figure is not unattainable once more, we expect truck demand to generally fluctuate at around 150,000 units. In that respect, it is a mature market," he notes.

At the same time, as in the passenger car industry, exports have been affected by the high yen and increasing overseas production. Exports of commercial vehicles have dropped 16 per cent from 1m in fiscal 1992 to 838,000 last year.

While Hino Motors, which exports in yen, was able to increase exports by 12 per cent in the first half, Daihatsu, for example, suffered a 17 per cent decline in exports over the same period. The drop reflected both the rising value of the yen and increased overseas production.

In order to overcome the effects of currency fluctuations, and to be able to more quickly respond to local needs, commercial vehicle makers are speeding up the shift of production overseas.

Although the trend is not as marked as in the passenger car market, commercial vehicle makers are actively localising production, with a growing focus on Asia, where demand is very strong.

Mitsubishi Motors says that it has increased production of trucks and buses in Indonesia from 15,000 units last year to 21,000 units in 1995.

Production of small trucks, in particular, is being shifted overseas. Toyota last month announced the construction of a fourth manufacturing facility in north America where it will make pick-up trucks previously manufactured on an own equipment manufacture (OEM) basis by Hino Motors.

Mitsubishi Motors is concentrating the production of pick-up trucks in Thailand, where it will start production next year for the local market as well as export markets to areas excluding the US.

These structural changes have prompted a moderate restructuring in the domestic commercial vehicle industry where small truck makers in particular face intensifying competition.

In this sector of the market, where capital investment requirements to meet the new emission regulations are high, the weaker companies have strengthened their alliance in an effort to spread the burden of increased spending more widely.

Toyota, Hino Motors and Daihatsu have agreed to supply each other with smaller trucks on an OEM basis so as to tap better the advantages of volume production and to cut down on capital spending overlaps.

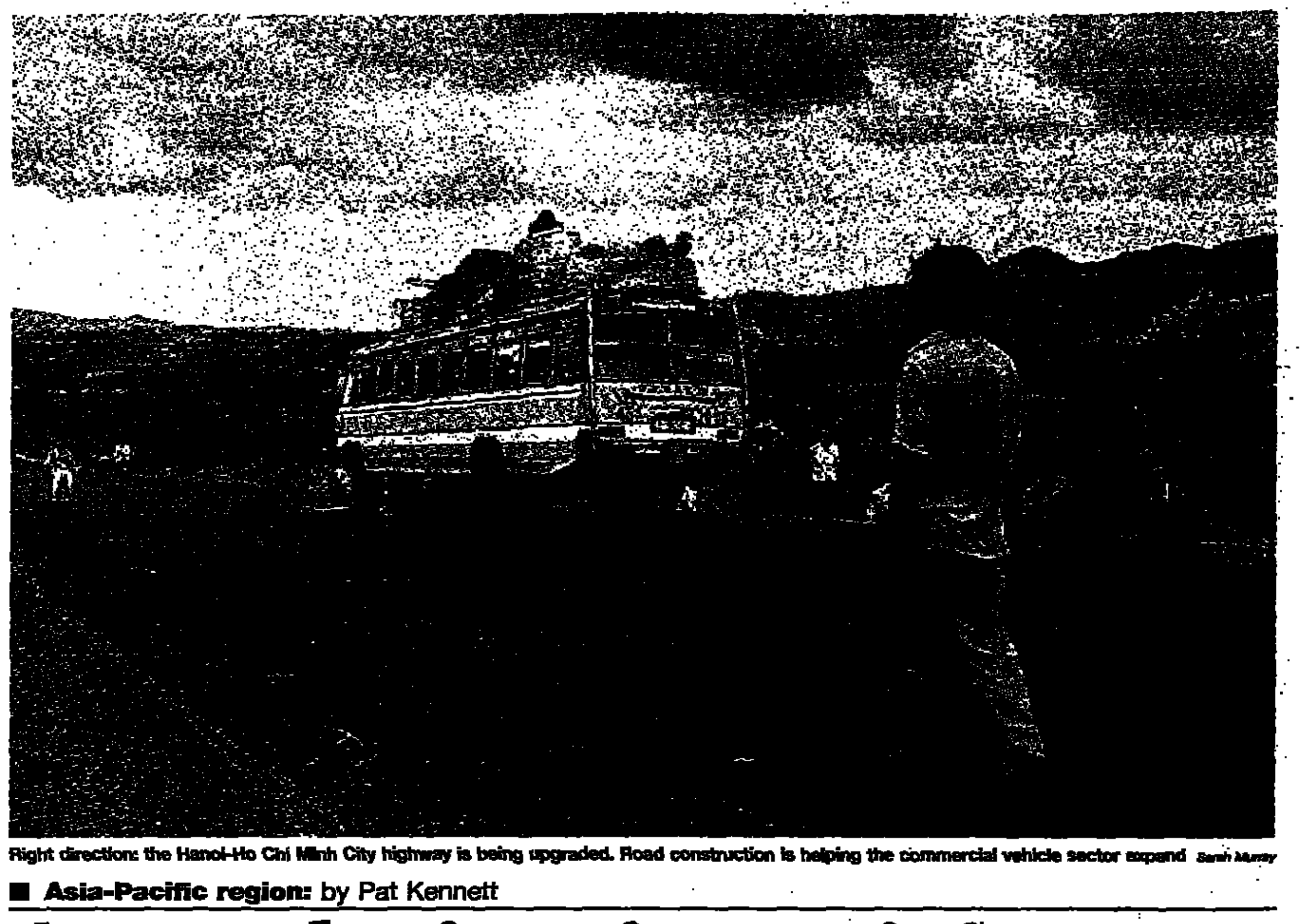
New, even stricter regulations on emissions, which come into effect in 1998, make it all the more essential that for companies to use their resources as efficiently as they possibly can.

The new regulations, which will be the most stringent in the world for diesel engines, call for a reduction in nitrogen oxide emissions by 38 to 65 per cent from 1988 levels by 1998. Combined with further restrictions on other emissions, the new rules will require significant investment to develop new technologies.

As a result of these pressures, commercial vehicle makers in Japan are being forced to continue stringent cost-cutting measures involving a review of procurement practices, a streamlining of independently developed models mainly by agreeing OEM deals with other manufacturers and a hard look at personnel costs.

Japan's commercial vehicle makers will have a difficult time making high investments in the face of a slow economic environment that is forcing them to keep a tight rein on costs.

However, at the same time, there are opportunities available amid the structural changes occurring in the industry. This means that competition among truck manufacturers to take advantage of this transitional period to increase market share, is bound to intensify even further in the years ahead.



Right direction: the Hanoi-Ho Chi Minh City highway is being upgraded. Road construction is helping the commercial vehicle sector expand *Sarah Murray*

■ **Asia-Pacific region:** by Pat Kennett

A revolution in activity

South Korea – not Japan – is seen as the leading force in this expanding market

Fast-growing industrial affluence and an unwillingness to be seen, on the part of businesses and commercial houses, as in any way second best, have changed the face of truck activity in the most important markets of south east Asia.

Massive road construction programmes and a growing awareness of environmental matters, mean the region no longer falls into the traditional "developing world" category.

Significant in that scenario is the emergence of South Korea as a significant force. Increasingly sophisticated developments in Thailand, Taiwan, Indonesia and Malaysia contribute to the region's transport revolution. The once-sleeping giant, China, is showing signs of awakening while Vietnam and the Philippines are becoming more evident elements in the overall picture. India, of course, continues its unstoppable progress towards becoming an important world power in trucks.

Common to all these developments is a move away from Japanese truck products, undoubtedly an element in the steady decline over 10 years of both truck output and exports to barely 50 per cent of 1985-96 levels.

Perhaps surprising is the success of European companies in the region, either as technical partners in manufacturing joint ventures or as commercial partners in a market-based approach. Among the former, Mercedes-Benz is investing over $1bn in a joint venture in China to build a version of the Viano, a 1,000kg-capacity vehicle which would be called a Combi in Europe.

Elsewhere, the successful Indonesian-built MB700 medium truck is also to be produced in a joint venture with Ssang Yong in South Korea, while a bus version is planned tor 1996. This is in addition to the existing MB100-based light utility range which Ssang Yong is already making. Plans are afoot to build MB700s in Vietnam too, and by late 1996 as many as 25,000 units a year of this model alone are expected to be built in Asia.

From a 1991 start, Iveco's business in the region has grown significantly, following a strategy of involvement in local industry, rather than straight import from Europe.

Iveco's Chinese Daily light truck joint venture has been well publicised and the same basic design is now being assembled in Vietnam, where Iveco is seeking joint venture investment to expand the operation. In Malaysia light, medium and heavy Iveco trucks are assembled, as well as buses, all with increasing local content. Solid growth in Asia showed sales exceeding 1,500 units, China and India excluded, in the first 10 months of 1995. Cheap natural gas supplies in Malaysia are generating interest in gas-fuel buses, using European and American technology.

Scania's approach is market-orientated, rather than industrial, but the region is its third-largest market after Europe and Latin America. Over 2,200 heavy vehicles were sold in 1994 (excluding a further 500 or so in neighbouring Australasia) and 1995 is expected to show an 8 per cent increase. The main markets are Taiwan, South Korea and Indonesia, and a small CKD plant has been established in Malaysia. Volvo has made considerable inroads, too, with a plant in Malaysia, and a total sales figure of 1,400 units.

RVI has won modest but growing CBU sales in Taiwan, Hong Kong, Thailand, Indonesia and China, and late in 1995 signed an agreement with a Malaysian partner to assemble heavy trucks and buses.

Japanese products are perceived as obsolescent, particularly in the heavier classes, and dynamic businesses demand the best, regardless of origin. This has opened up markets for the Europeans. A coach operator in China, catering for businessmen, found them willing to pay higher fares to ride on his superior Iveco and Scania coaches. As a result, his fleet is expanding. A construction group in Thailand is buying Iveco SuperCargo mixer trucks even though the first-cost is almost twice that of JieFangs and Mitsubishis previously used.

Key issue

A significant element is the image presented to the customer, independently of running costs and work capability. A further factor is that European trucks meet Euro 1 or Euro 2 emission standards, and will be easier to sell on in a few years time when pollution laws really bite.

The matter of image – the desire to have the best equipment available – lends impact to the South Korean truck builders, particularly Daewoo. That group is investing heavily in truck and bus technology, including environmental cleanliness, seeking the very best help. European design and engineering consultants like AID and AVL are closely involved, working with South Korean engineers' undoubted abilities in materials and production technology.

South Korea is widely regarded as the greatest potential force in the Asian commercial vehicle industry, for few now see Japan as a large influence. Japan faces difficult decisions, acknowledging that a great deal of investment is required to produce technically and commercially attractive vehicles.

Not quite in the same league as Daewoo, but significant none the less, is South Korea's Hyundai, making good progress in the development of medium and heavy commercial vehicles, in addition to the well-established lighter models. Their new 3- and 4-axle construction industry trucks have been well received.

An important factor which helps Daewoo to conclude business deals in overseas markets, is the sheer breadth of the group's industrial activities. Few pure vehicle-makers will consider barter deals, but a diversified group can carry such deals through because there is no third party involved, and the risks are thus minimised. The Tata group in India is another highly successful practitioner of that technique.

A big stimulant to truck sales is the widespread investment in road infrastructure. Projects such as the spinal highway in Indonesia, an almost total renewal of Malaysia's trunk roads, and the new highway between Hanoi and Ho Chi Minh City (Saigon) are well known, but many smaller road projects are under way, often with high state priority.

Not all the traffic is inwards. In 1995, the Chinese truck builder Jiefang began exporting in quantity, mainly to Africa.

■ **Asian policies:** by John Griffiths

Daewoo blazes European trail

The daunting costs of complying with regulations could lead to closer global co-operation

It is with some chagrin that Japanese truck makers must have become aware of plans by Daewoo, South Korea's aggressively expansive industrial conglomerate, to launch a complete range of commercial vehicles, including heavy trucks, into the markets of eastern and western Europe from about 1998.

The Japanese commercial vehicle industry, partly because of Japan's own road infrastructure and topography, has never been a producer of the big, 38-tonne articulated trucks that dominate haulage in Europe and north America. But companies such as Nissan and Hino produce full ranges of smaller trucks and almost certainly could have achieved the penetration into European truck markets that the Japanese motor industry has with its cars.

Instead, while it has established, through companies such as Isuzu, footholds in the north American truck market, over nearly two decades it has abided by informal agreements not to seek sales in EU markets for commercial vehicles over 3.5 tonnes. Hitherto, the only exception has been a small-scale assembly venture involving Hino trucks in the Irish Republic.

However, staying out has not involved enormous frustrations for Japanese producers. Trucks sell in much smaller volumes than cars, need to be produced in much greater variety for specific user needs, and are subject to even more detailed construction and use regulations than cars. Japanese and European legislation have differed widely in many areas and engineering Japanese trucks for European markets would have been costly.

But as a comprehensive study of the future of the West European Heavy Truck Industry, by industry gurus Prof Garel Rhys and Dr Paul Nieuwenhuis* points out, the regulatory landscape is fast changing.

European legislation is now being adopted by the Japanese, Dr Niewenhuis points out in an interview with *Truck*, the commercial vehicle industry publication. Eventually, "the whole land mass from Ireland to Japan will, effectively, be covered by very similar regulations. That will open up the European market to the five Japanese truck makers."

The daunting costs to a truck maker of producing new vehicles to comply with a welter of environmental, safety and other legislation – Volvo's latest FH range cost £550m to develop – could even lead to cost-sharing collaboration between European producers and Japanese truck makers.

The latter would stand to benefit from both market access and the prospect of European-based joint production ventures to escape from the high cost of manufacturing in Japan.

Certainly, the covetousness with which some emergent commercial vehicle industries in several parts of the Asia-Pacific region are eyeing Western truck markets may of itself prevent Japanese producers from staying on the sidelines.

The aggressiveness of South Korean rivals like Daewoo and Hyundai has already given Japanese companies pause for thought. Meanwhile, India, in the form of truck makers Tata, is making plans to export commercial vehicles of up to 7.5 tonnes to the UK.

Daewoo is making the running in a manner few had expected. Starting late in 1997 it will launch in Europe the first of a range that will eventually include tractor units for heavy haulage. They will complement sales of cars and vans already set in train by Daewoo's purchase of controlling shareholdings in:

- FS Lublin, Poland, where it is spending $350m to bring 50,000 cars and 40,000 vans a year into production starting next year;
- Avia, in the Czech Republic, where 12,000 light trucks and heavy vans will be built starting in 1997 at an investment cost of $200m;
- Steyr – Daimler – Puch, in Austria, involving a $250m investment in diesel engine production and existing transmission production facilities.

It also has a 50-50 joint venture with the Uzbekistan government for a 200,000-a-year can and van plant at an investment cost of $600m. And most significant of all, production is getting under way of vans and trucks of all sizes at a new wholly-owned plant at Kunsan, South Korea, destined to be turning out more than 200,000 trucks and vans a year before the end of the decade. Of these, 14.5 per cent are scheduled to be exported.

The moves underline Daewoo's declared intention to be one of the world's top ten vehicle manufacturers by early next century, with capacity to build 2m cars and trucks annually.

Hyundai, Daewoo's Korean arch-rival, has declared its intention to achieve the same output volumes and status. Both represent a challenge which Japanese truck makers can hardly ignore.

* *The Future of the West European Heavy Truck Industry: Survival of the Biggest?; by Prof Garel Rhys and Dr Paul Nieuwenhuis, Centre for Automotive Industry Research, Cardiff Business School, University of Wales, Aberconway Building, Colum Drive, Cardiff CF1 3EU; price, £75.*

■ **Environmental issues:** by John Griffiths

Exploring many avenues for a greener vehicle

As legislative pressures mount, all aspects of design and usage are under scrutiny

After seven years of development and investments totalling around SKr3.5bn, Swedish truck maker Scania's new range of 4-series heavy trucks is taking to the roads.

It includes a completely new engine range, technologically advanced and with four valves per cylinder with the potential to meet all existing and envisaged environmental standards, Scania executives say.

The launch virtually coincides with the first stage of introduction of the European Union's Euro 2 exhaust emission legislation which sharply cuts permissible levels of carbon monoxide, hydrocarbons, oxides of nitrogen and sooty particulates compared with the Euro 1 restrictions on truck pollution several years ago.

The first phase of Euro 2 requires the standards to be met only by new designs of trucks just entering production and the new 4-series meets them without difficulty. Neither Scania nor any other big truck maker is troubled by the next phase of Euro 2, effective next October 1, which will impose the same standards on all trucks in production.

Nearly every truck engine now coming off the industry's production lines has been developed and refined to meet the standards, using more sophisticated fuel injection and other technology – albeit at high cost. Iveco, for example, estimates that compliance cost more than £1bn.

Their concern now is about what lies beyond – and an expected further sharp cut in permitted emissions.

In what form these Euro 3 standards will emerge, however, is increasingly unclear. A proposed outline from the EC is already a year late and appears to have been overtaken by a change of thinking away from a 1999 deadline. Instead, EC officials and the automotive and petroleum industries are collaborating on a study of the interaction between engine technologies and fuels. At the same time, a programme is under way to assess air quality in seven European cities – Athens, The Hague, Cologne, London, Lyons, Madrid and Milan – and to project likely air quality levels by 2010 following full implementation of Euro 2 and car emissions standards. Consultancy Touche Ross is also carrying out for the EC a study of the cost-effectiveness of various possible measures. The results will determine the shape of Euro 3 proposals.

"Any further reductions beyond the Euro 2 standards will be difficult to achieve and require a substantial technological effort," says Paolo Scolari, Fiat's vice-president for the environment and chairman of its research centre.

The hope remains that standards will be set at a level allowing them to be met by a further refinement of technologies: the latest crop of engines already exceed Euro 2 standards by a big margin.

Uncertainties over Euro 3, however, have not stopped the industry pushing ahead on research in the expectation that environmental, fuel economy and related pressures can only mount.

Closer attention to aerodynamics, for example – as Volvo has found with its own latest FH trucks range – can provide substantial benefits in terms of better fuel economy, and hence reduced emissions.

The FH is claimed to have an aerodynamic drag coefficient 30 per cent lower than its predecessor and to be 10 per cent more economical. Over 180,000 kilometres, this means 6,000 fewer litres of fuel used.

As for the engine itself, further progress on the emissions and economy front is expected to be evolutionary, rather then revolutionary. By working on the whole engine in many areas, such as further refining electronically-controlled fuel injection and reducing internal losses, manufacturers expect to be able to achieve further fuel consumption cuts of 15-20 per cent by the end of the decade.

Fuel has a large role to play in reducing truck exhaust emissions, particular in the reduction of tiny, sooty particulate matter suspected of being a carcinogen. Emissions of these are closely linked to the level of sulphur in diesel fuel and in the EU over the next two years the sulphur content is being reduced from 2,000 parts per million to 500.

Given this cut, truck makers such as Volvo claim overall exhaust emissions from the latest generations of diesel trucks will be closely comparable to ethanol, methanol or natural gas – the last of which is now being heavily promoted as a "green" fuel.

Prediction

"We are convinced that diesel still has a bright future," says Hans Nyman, Volvo's environmental council chairman – particularly as natural gas must be compressed or liquefied to be viable as a vehicle fuel, and the infrastructure for filling stations in many countries is barely developed compared with conventional petrol or diesel.

Even so, some truck or engine makers catering for both fuels. In North America, for example, Navistar, Cummins, Mack and Detroit Diesel are among those that have already developed natural gas-powered versions of buses and urban delivery trucks.

Some solutions lie outside the truck industry. Significantly reduced emissions can result from more efficient use of trucks by hauliers. Historically, 30-40 per cent of freight vehicle capacity has gone unused as a result of trucks returning empty from delivering a load or travelling empty to pick one up.

However, geo-positioning satellite vehicle guidance systems, in combination with ever more sophisticated computer-based logistics systems for fleet managers, are beginning to produce much better truck use. Fewer vehicles are travelling fewer miles to carry the same volume of freight.

Exel Logistics, one of the UK's biggest independent truck fleet operators, provides a good example. Four years ago it decided to try to cut the fleet's fuel consumption by 15 per cent by 1996.

It is close to achieving its goal, says Mike Aldridge, its engineering services director. Part of the improvement derives from new and more fuel efficient trucks joining the fleet over the period. However, he says that reducing empty running has also paid off, helped by changing attitudes among important customers towards vehicle sharing.

Vehicle designs have been changed to facilitate this process. A dual-function trailer has been developed for British Sugar, for example, which contains collapsible bags. Instead of returning empty to base after delivering bulk granulated sugar, the empty bags can be collapsed to make room for a return payload of other goods.

Noise is also an issue for truck makers and hauliers. Austria and Switzerland, for example, already place severe limits on truck movements at night. Next year, new European noise limits for trucks are being introduced allowing a maximum of 80 decibels in a drive-by test compared with the current perceived decibel level of 84dB(A).

Partial engine encapsulation and other on-board sound deadening features have already made trucks significantly quieter and, the manufacturers insist, it is to other areas, notably tyres and road surfaces, that legislators should now look.

Tyre makers such as Pirelli, which has already invested heavily in researching "quiet" tyres, also argue that the road surface issue must be addressed. Indeed, a EU road surface standard is planned. But until its specification is agreed, say the tyre makers, it is difficult to design for it.

Volvo's "Environmental Concept Truck" (ECT) seeks to address not just the noise problem, but other environmental challenges such as congestion and inner-city pollution. At 15 tonnes and of highly manoeuvrable design, it can do the work of six 3.5-tonne vans, claims Volvo. For urban delivery work it can run silently on nickel-metal hydride batteries, switching to an ethanol-power gas turbine on the open highway. Cost and complexity make it an unlikely candidate for early commercial production, however.

In the UK, at least, there is one other legislative move that would help cut congestion and the extra exhaust pollution it causes. Much of Continental Europe has a maximum weight limit for trucks of 44 tonnes. The UK's remains at 38. If the UK harmonised with the Continent, between 4,000 and 9,000 fewer trucks would be needed; 500m fewer miles would be travelled annually and 800,000 fewer tonnes of carbon dioxide would be emitted each year, according to industry analysts. The trucks, they point out, are physically no larger and with their weight spread over six axles, not five, they are less damaging to roads.

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■ **Brazil:** by Jonathan Wheatley

Brakes on sales boom

Producers are developing new industrial and financial skills to cope with growth

This year has been one of mixed fortunes for Brazil's commercial vehicle manufacturers. A sales boom that gathered speed during the second half of 1994 on the back of the government's economic reform plan petered out in the second quarter of 1995, as the government slammed the brakes on an economy that looked dangerously like overheating.

Mercedes-Benz do Brasil, the market leader in all sectors except heavy lorries, expects to finish the year with unit sales up by 20 per cent over 1994, about par for the industry. Scania do Brasil, which failed to take full advantage of the boom in January and February because of a delayed shipment of parts from Europe, says its sales this year will be about the same as last.

Although the government is gradually relaxing controls on spending, sales are unlikely to pick up in the near future. In the longer term, however, industry leaders expect markets in Brazil and Latin America to deliver some of the highest growth rates in the world.

"In the short term, I'm not optimistic," says Hans Hedlund, president of Scania's Brazilian and Latin American operations, based in São Paulo. Mr Hedlund blames his company's low sales on a sluggish economy and continuing high interest rates, and sees little sign of immediate recovery.

"A transporter who borrows to buy one of our trucks will have to pay annual interest of up to 50 or 60 per cent on the loan," he says. "They don't make enough at present to cover the payments."

The government's credit squeeze has had less impact on the bus market. While sales of many goods and services have suffered in recent months, lower-cost items have continued to perform well. This is because the biggest beneficiaries of Brazil's new monetary stability are the poorer members of the population, who now find themselves with disposable income for the first time many can remember. As long-distance bus travel is cheap, the market has enjoyed sustained expansion.

Bus makers should also do well in 1996, which is a municipal election year. Outgoing mayors will be keen to invest in visible projects like urban public transport as they try to ensure the election of their preferred successors.

As sales in its core heavy lorry market deteriorate, however, Scania has cut the working week on its production lines from 44 to 40 hours. The company's 3,200 workers voted at the end of November to accept a deal that avoided 400 job losses, held wages unchanged and allowed for a flexible working week of between 32 and 44 hours, depending on demand.

Mercedes-Benz has gone further. In September it announced that 1,600 jobs were to go – or a tenth of its workforce – at its two principle lorry and bus plants near São Paulo.

Although the cuts follow declining sales, the company insists they were made as part of a restructuring programme to develop greater efficiency and competitiveness in Brazil and in export markets.

The short-term outlook is bleak, but experts say Brazil could become one of the world's fastest-growing markets

"The market in Brazil and the rest of Latin America is getting more and more competitive," says Roberto Bogus, sales director at Mercedes-Benz in São Paulo. "After-sales service and other competitive elements are becoming more important, and margins are being cut."

But Mr Bogus is bullish about the future of the Brazilian market. "Brazil has all the right fundamentals for future growth," he says. "The economically active population is young and ambitious. The stability of the currency and the economy in general is encouraging more and more multinationals to set up here. Those are unmistakeable signs of a major market in the future."

Other manufacturers are also preparing for growth. Volkswagen is spending \$250m on a lorry and bus plant in Resende, Rio de Janeiro state, scheduled to produce 30,000 units in 1996 and 40,000 a year from 1997. Scania is investing \$200m on modernising its plants in Brazil and Argentina, in readiness for production from 1997 of its new Series 4 heavy lorries recently launched in Europe.

Other important manufacturers, including General Motors, Iveco and Renault, are said to be actively considering opening their first lorry and bus factories in Brazil.

Despite the bleak short-term outlook, Mr Hedlund is confident that Brazil will develop into one of the fastest-growing markets in the world. It is already Scania's most important market, with 25 per cent of worldwide sales.

"Scania's factories in Brazil and Argentina will soon be almost identical to our factories in Europe," says Mr Hedlund. "We plan to be one of the first companies operating first-world-style factories in Brazil."

Its investments in Brazil and Argentina are part of Scania's strategy to standardise production around the world, so that plants producing vehicles and components can supply to local and overseas markets according to changes in demand, Mr Hedlund says. Parts produced in Brazil and Argentina are already exported to Scania's manufacturing plants in Mexico and Europe.

Comparing productivity in Brazil with Europe or the US is difficult because of the remaining differences in machinery and production methods. However, Mr Hedlund says productivity remains below European levels, although it has improved by 50 per cent over the past five years.

Changes in the way customers handle their distribution systems is having a direct effect on the lorry market, says Mr Bogus at Mercedes-Benz.

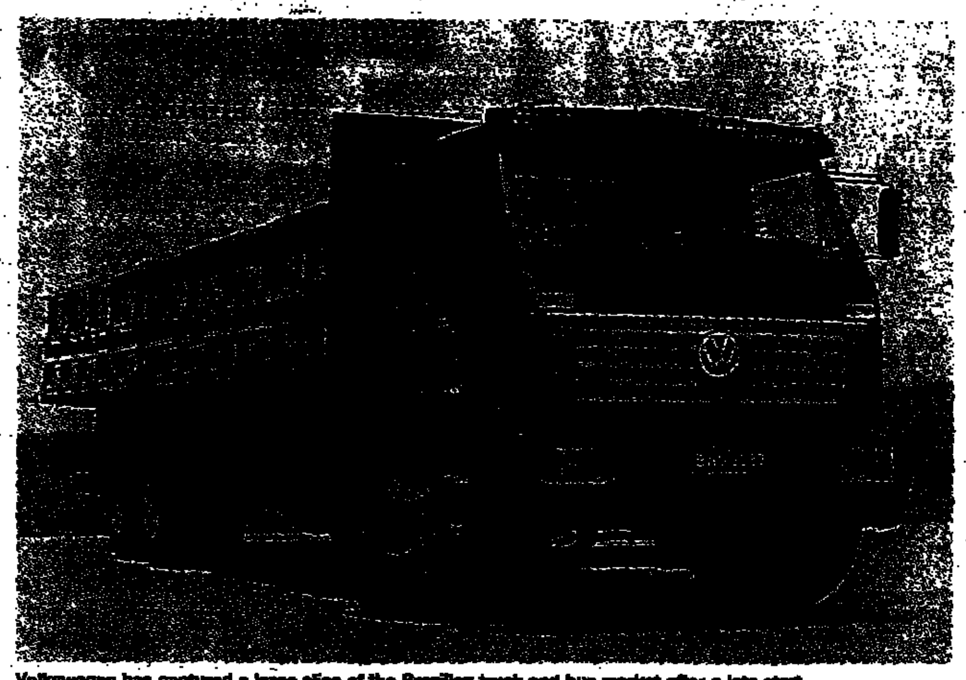
"Our customers are getting better at using just-in-time distribution techniques," he says, meaning that heavy and light lorries, used to carry goods into and out of regional distribution centres, are selling better than medium-weight vehicles.

"This is something that has become apparent in the recent past and will be more important in the future," he says, adding that the consequent trend towards bigger vehicles means extra market capacity is not always reflected in sales figures. "Many heavy lorries are a ton and a half bigger than they were five years ago," he says.

Another trend is towards the use of financing mechanisms such as operational leasing, common in other markets but still relatively new to Brazil.

Ryder System, a US distribution and logistics company, recently signed a deal with Baesa, Pepsi-Cola's distributor in Brazil, under which Baesa will sell and lease back its 700-strong fleet of lorries.

"This kind of operation will become increasingly important, it's the future of the market," says Mr Bogus. Next year, Daimler-Benz's financial management division, Debis, is due to begin operating in Brazil and will offer leasing as one of its services.



Volkswagen has captured a large slice of the Brazilian truck and bus market after a late start

■ **New technology:** by Haig Simonian

The truck of tomorrow

Electronics and the environment will set the guidelines for evolution rather than revolution

Video on demand is already feasible as part of the information superhighway. Current distribution channels are as yet unable to offer the same speed for delivering physical goods. But, whatever the limitations of the world's often less-than-super physical highways, the truck of tomorrow will be very different from that of today.

Any forecast about commercial vehicles in the third millennium requires bold assumptions about developments in fuels and materials, not to mention the future of road transport in general. Based, however, on the premise that most changes will be evolutionary, it is possible to peer into the crystal ball of truck technology.

Drivetrains and electronics will be the focal points for change, with attention concentrating on the suitability of diesel as a power source.

For all its drawbacks – notably the smelly particulates emitted by engines and much-vilified by environmentalists – diesel propulsion looks set to remain the prime source of power for commercial vehicles for years to come.

That is due to the continuing limitations of the alternatives. Petrol has been discarded because of greater cost and higher fuel use. Liquified petroleum or natural gas have advantages, but they have been limited by the bulk of the fuel tanks needed and the lack of a distribution network.

Weight and bulk also hamper electric traction, in spite of the advances made in battery technology and the environmental attraction of electric vehicles. And gas turbines, once touted as the powerplants of the future, have been impeded by their heavy fuel consumption.

Hybrids are an alternative. Volvo's striking Environmental Concept Truck (ECT) unveiled earlier this year, is powered by a combination of a gas turbine and an electric engine to get the best of both worlds.

The ECT uses a sophisticated gas turbine coupled to a high-speed generator to produce electricity for its rear axle engine. At low speeds, the hybrid unit produces spare electricity, which is stored in the ECT's on-board nickel-metal-hydride batteries. When full power is required, the batteries combine with the turbine/generator to maximise electricity output.

In city centres, the vehicle uses only battery power, resulting in zero emissions and providing a range of about 25 kms. Outside conurbations, the gas turbine generates current to the motor directly. Although not pollution-free, Volvo's gas turbine runs on ethanol, a relatively clean renewable fuel.

But Volvo admits the ECT's drivetrain is uneconomic at present. In spite of their advanced composition, the batteries alone weigh 2 tonnes. That would eat into the vehicle's payload and severely handicap its profitability when operating commercially.

Failing radical advances in battery technology, diesel will remain invincible. Its dominance for road haulage will be enhanced by further research into fuel composition to reduce emissions and into injection technology to improve the level of economy.

Meanwhile, electronic systems, which are already prevalent in engine management and gearboxes, will play a growing role.

Computers have already found their way into the engine bay to control fuel mixtures, injection settings and gear changes. However, they will gradually creep into other systems. New models unveiled recently by Scania and Mercedes-Benz's Freightliner subsidiary incorporate the "control by wire" technology once restricted to fighter aircraft and now common in civil aircraft.

The new trucks' "braking by wire" technology is likely to become commonplace in high-cost long-distance vehicles where weight savings and maximum reliability are paramount.

Electronics will also make inroads into suspension systems as more trucks incorporate electronically-regulated active suspension technology. Volvo's ECT used such a system to monitor and constantly adjust its ride height, making allowances for road surfaces and cornering stresses. Active suspension, already available on a Citroën production car, will soon become essential for trucks.

Most other developments are likely to be concentrated in and around the cab. Cab construction is likely to change, with greater use of aluminium and composite materials to save weight while retaining structural integrity.

Inside, cabs will become mobile communications centres, especially for vehicles involved in long-distance haulage, and, possibly, urban distribution.

GSM – the Global Standard for Mobile telephony – telephones will keep drivers in touch with their bases, irrespective of their location. Navigation systems linked to global positioning satellite receivers and built-in CD-ROMs will provide real-time geographical information, while sophisticated technology on road congestion will give updates on the best routes.

Communications systems could be linked to an on-board personal computer and modem, allowing the driver to input data about deliveries and pick-ups. That would allow his base to monitor his progress and, technically, maximise his truck's capacity.

Driver information will also be boosted by the arrival of rear-facing cameras relaying pictures to cabin-mounted monitors and ultra-sonic or infra-red sensors to improve manoeuvrability.

The handling characteristics of vehicles may even be improved by rear-wheel steering systems, already seen on the ECT. The ability to turn the rear wheels can make a long truck surprisingly agile in tight urban locations or lorry bays and can even add stability in manoeuvring on the open road.

Finally, tomorrow's truck should be a more comfortable place to work in. Noise levels for both occupants and roadside dwellers will be reduced by better aerodynamics and quieter engines and tyres.

The comfort levels of drivers, who typically spend long periods on the road, should rise because of better seats, improved fabrics and more attention to ergonomics. Who knows, that restful ambience may even be enough to nurture the future PhDs required to drive the trucks of the future.

Volvo has developed an environment-friendly truck, the ECT

■ **Road-rail transport:** by Charles Batchelor

Traffic swerves off the road

The challenge is to make freighting using several forms of transport more efficient

In Britain, the opening of the Channel tunnel has created new opportunities for shipping goods by rail to the Continent and prompted a review of how truck trailers could be carried "piggy-back" on rail wagons.

In Germany and Sweden, Hansa Rail, a joint venture between the national railways of the two countries, has increased cross-border freight traffic by 10 per cent in the first eight months of 1995 compared with the same period of 1994.

In Europe, an agreement between 13 national railways to encourage a shift in the transport of new cars from road to rail has boosted the volume of this type of rail traffic by 21 per cent over the past 10 years.

While rail's total share of the European transport market has declined steeply over the past 20 years – road now accounts for 70 per cent of all goods shipped – it has grown continuously in absolute terms. Between 1993 and 1994, freight traffic in the European Union recorded an above-average growth of just over 7 per cent.

A great deal of effort is now being devoted to "intermodal" transport, involving shipment, usually by road at the start and end of the journey but with a switch to rail or ship for the long main haul.

Getting shipments off the roads reduces congestion and provides environmental benefits because rail and sea transport are both less polluting than truck. The disadvantage is that each trans-shipment increases costs and introduces delays.

This means that intermodal transport is usually only viable over long distances where the time savings can compensate for the delays at the handling terminals. Much of the work that has gone into intermodal transport has been to look at new equipment and at new systems which can reduce trans-shipment times.

Prompted by growing pressure on the EU's crowded road network, the European Commission has been attempting to inject new life into the continent's railways. A directive passed in 1991 – 91/440 – set out to increase competition in the railway market, on both the passenger and freight sides.

The directive provides for the infrastructure and operations of the railways to be separated so as to allow access to the market for new operators. Railway managers are to be given greater autonomy and the finances of the railway are to be improved by debt write-offs.

The pace of change has varied in the different countries of Europe. The UK has taken the idea of separation and the introduction of competition the furthest with its plans for privatisation. France has been among the countries to cling most doggedly to the present, highly centralised, structure but the pressure of SNCF's mounting losses may make change inevitable. Germany, Sweden and the Netherlands have steered a middle course.

This initial freeing of the structure of the railway is now being followed by further measures to develop rail links. A network of Trans European Networks is now being developed. Seven of the first 11 projects are rail with two, a rail link between Rotterdam and Germany and another between Lyons and Turin, specifically devoted to freight.

The Ecu220bn TENs programme, which is expected to take 15 years to implement, involves a total of 70,000 kms of rail track of which 23,000 kms will be devoted to freight and intermodal shipments. Freight terminals will be built or upgraded while an attempt will be made to achieve a uniform loading gauge (covering the size of tunnels and bridges and the position of platform edges) throughout Europe.

In the first half of 1996, Neil Kinnock, European transport commissioner, plans to put forward proposals in the field of intermodal transport. Research has already been carried out under the EU's Pilot Action for Combined Transport or PACT programme and there are plans to refine the initiative and obtain more funds for further work.

Competition

Unfortunately for rail, parallel efforts by the EU to make road transport more efficient have boosted the attractions of road haulage. The deregulation of road transport has brought many new operators into this previously heavily controlled sector.

At the same time the relaxation of controls on cabotage – the ability of a haulier to pick up a shipment in a third market for delivery elsewhere – has also increased competition. The cost of road haulage has fallen as a result.

Concerns that rail has to compete from a position of weakness prompted the Community of European Railways (CER), representing railway companies, to call for action to redress the balance. Until competing modes of transport were required to bear their full "external costs" – covering environmental damage and the cost of accidents – and tax regimes and social legislation are harmonised, railways would remain at a competitive disadvantage, it said.

Attempts to make intermodal transport more efficient and cost-effective have involved the national railways and private consortia carrying out studies of new technology and new equipment.

In the UK, the Piggyback Consortium, a group of more than 20 companies and other organisations keen to promote intermodal transport, is working on plans to develop a core network of routes. The problem in the UK is that the railway loading gauge is too small to accommodate truck trailers.

The consortium has put forward plans to modify bridges and tunnels on a route between the Channel tunnel and the north-west of England and Scotland at a cost of £70m-£100m to carry four-metre high trailers. Special low-slung rail wagons are being developed to give the necessary clearance.

As many as 400,000 long-distance lorry movements a year could be diverted from road to rail if the piggy-back proposal is realised, the consortium said.

One method of carrying truck trailers on rail, known as RoadRailer, is expected to start regular services between Scotland and the south-east of England next year.

This method, which is already in use in the US, Australia and Germany, involves backing the trailer up to a rail bogie and then retracting the road wheels by means of a pneumatic mechanism. The trailers cost 30 per cent more than conventional "swapbodies" but do not need special terminal handling equipment.

But however ingenious the engineers and the railway planners, they will have an uphill struggle. Rail has a legacy of mistrust to overcome among customers who have frequently received an indifferent service in the past. The move towards just-in-time manufacturing techniques and other methods designed to reduce stock-holding have put an even higher premium on reliability and punctuality.

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